DEFENSE PRODUCTION ACT

PROGRESS REPORT—NO. 38

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MAIN READING ROOM

HEARING

BEFORE THE

JOINT COMMITTEE ON DEFENSE PRODUCTION
CONGRESS OF THE UNITED STATES

EIGHTY-FIFTH CONGRESS

FIRST SESSION

TO HEAR

FRANKLIN G. FLOETE, ADMINISTRATOR OF THE GENERAL SERVICES ADMINISTRATION, ON THE ACTIVITIES OF GSA UNDER THE DEFENSE PRODUCTION ACT

MAY 21, 1957

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DEFENSE PRODUCTION ACT

Progress Report No. 38

TUESDAY, MAY 21, 1957

CONGRESS OF THE UNITED STATES,
JOINT COMMITTEE ON DEFENSE PRODUCTION,
Washington, D. C.

OPEN SESSION

The Joint Committee on Defense Production met, pursuant to notice, at 2:30 p. m., in the Old Supreme Court Chamber, room P–63, United States Capitol Building, Washington, D. C., Senator A. Willis Robertson (chairman) presiding.

Present: Senators Robertson, Frear, Capehart, and Bricker; and Representatives Brown of Georgia, Talle, and McDonough.

Also present: Harold J. Warren, clerk and counsel; Allen E. Pierce, James E. Palmer, Jr., and George T. Ault, of the professional staff.

In addition to Franklin G. Floete, Administrator, General Services Administration; others present from executive departments and agencies included Max Medley, Comptroller, GSA; Henry Pike, associate general counsel, GSA; Elmer H. Weaver, Commissioner, Defense Materials Service, GSA; F. J. Gutchess, acting director, program planning and evaluation staff, DMS, GSA; John Croston, mine production and development engineer, DMS, GSA; Victor E. Cooley, Deputy Director, Office of Defense Mobilization; Thomas R. Rawlings, Director, Barter and Stockpiling Division, Commodity Stabilization Service, Department of Agriculture; Spencer S. Shannon, Director, Office of Minerals Mobilization, Department of the Interior; and Thomas Curtis, adviser on industrial raw materials and stockpile, Department of Commerce.

Senator ROBERTSON. The committee will please come to order.

The chairman will make a brief statement before he calls on the first witness.

This hearing is designed to help carry out the responsibility of the Joint Committee on Defense Production to continuously review the administration of the Defense Production Act.

The importance of this function is indicated by the fact that a revolving loan fund of $2.1 billion has been provided for carrying out programs authorized by the act and in the period from its enactment in 1950 to December 31, 1956, gross transactions certified under this authority totaled $8,982,803,000.

The taxpayers, whom this committee represents, have a right to know whether or not these activities, designed to strengthen our defense position, need to be continued, and, more specifically, whether due value has been received from a program which has resulted in an

estimated net loss of $852 million to the Government on transactions consummated up to December 31, 1956, when there has been full delivery on all purchases made.

This committee receives progress reports from departments and agencies performing functions under the Defense Production Act and, in addition, our staff conducts a continuous study of the programs.

Our review must consider such problems as availability of funds, the use of incentives authorized under the act (including tax amortization, which I personally feel has reached the stage of abuse rather than use), losses sustained, quantities of materials in the Defense Production Act inventory and their cost and market value, materials on hand which do not meet stockpile specifications, results obtained in upgrading low-grade ores and the development of substitutes, plans for the sale of existing inventories, the amount of outstanding contracts, the dispersal of storage facilities and public buildings, the status of the Nicaro nickel operation which was expanded with Defense Production Act funds, a report on the recent contract concluded for the purchase of nickel from the Freeport Sulphur Co., and other similar problems.

Section 302 of the Defense Production Act provides for loans and guaranties of loans to private business for expanding productive capacity, developing technical processes, or producing essential materials, including the exploration, development, and mining of strategic and critical metals and minerals.

Section 303 of the act provides for purchases or commitments to purchase minerals or other materials for Government use or resale and for the encouragement of exploration, development, and mining of critical and strategic minerals and metals; for transportation, storage, and processing of materials procured; for the installation of equipment and the development of substitutes.

The General Services Administration plays an important role in administering the programs under this act, as is indicated by the fact that it has had allocated to it by the Office of Defense Mobilization $1,520 million of the revolving fund of $2.1 billion which I mentioned. GSA serves as the contracting agency, under policies fixed by ODM, and in so doing maintains the Defense Production Act inventory. Materials from this inventory may be sold either to the stockpile or to private industry. Funds obtained from these sales replenish the revolving fund and permit additional purchases within the limit of the borrowing authority provided.

Because of this key function of the GSA, I asked Mr. Franklin G. Floete, Administrator of the General Services Administration, to meet with the committee today. And, since some of the questions presented could relate to other departments and agencies, we also have present representatives of the Office of Defense Mobilization, the Department of the Interior, the Department of Agriculture, and the Department of Commerce.

Mr. Floete, we are glad to have you with us, and you may proceed with your testimony.

STATEMENT OF FRANKLIN G. FLOETE, ADMINISTRATOR, GENERAL SERVICES ADMINISTRATION; ACCOMPANIED BY MAX MEDLEY, COMPTROLLER; HENRY PIKE, ASSOCIATE GENERAL COUNSEL; ELMER H. WEAVER, COMMISSIONER, DEFENSE MATERIALS SERVICE; F. J. GUTCHESS, ACTING DIRECTOR, PROGARM PLANNING AND EVALUATION STAFF, DEFENSE MATERIALS SERVICE; AND JOHN CROSTON, MINE PRODUCTION AND DEVELOPMENT ENGINEER, DEFENSE MATERIALS SERVICE

Mr. FLOETE. Mr. Chairman, I don't think it is necessary to read this complete statement. It is merely an attempt to give a complete picture of the various laws which form a part of this whole procurement program for strategic raw materials. It is a complicated subject, but I can speak very briefly from the statement, and not take the time to read it all, if that is satisfactory to you, sir.

Senator ROBERTSON. Without objection, the whole statement will be inserted in the record.

(The above-mentioned statement is as follows:)

STATEMENT OF FRANKLIN G. FLOETE, ADMINISTRATOR, GENERAL SERVICES ADMINISTRATION

Mr. Chairman and Members of the Committee, I welcome this opportunity, in my initial appearance before your committee, of giving you a report of the progress of the Defense Production Act programs administered by the General Services Administration.

LEGISLATION DEALING WITH RAW MATERIALS

Before discussing in detail GSA's responsibilities and performance under the Defense Production Act, I would like to emphasize that, primarily, we are talking about the acquisition of, and the expansion of productive capacity of, raw materials. It is equally important to point out that there are several laws which affect the raw-materials program of the Government.

The Congress, in enacting these laws, recognized that, just as modern warfare requires the mobilization of the civilian economy, an adequate preparedness for modern warfare requires that the civilian economy be readied to meet the needs of the military. Preparedness for modern warfare requires the accumulation not only of arms and direct implements of war, but also the basic raw materials that are essential for the production of the finished products.

It is difficult to understand GSA's responsibilities in the raw-materials field until all these laws are brought together and their relationship with one another properly evaluated.

Consequently, I believe it will be helpful to the committee to mention briefly each of the major statutes and show how they affect the total materials program.

1. The Defense Production Act of 1950, Public Law 774, 81st Congress

This act authorizes a variety of forms of financial assistance, which I will discuss in more detail later, to expand the productivity capacity and supply of raw materials, and provides "for purchases of or commitments to purchase metals, minerals, and other materials for Government use or resale." There is no limit on the gross value of contractual commitments which may be made for this purpose in the law, but there is a limitation established by the Office of Defense Mobilization on the maximum obligations, computed on the basis of the "probable ultimate net cost" (PUNC), which may be incurred within the limits of allocations to GSA from the $2.1 billion borrowing authority provided in title III of the act.

The act also authorizes the transfer of surplus materials acquired thereunder to the national stockpile without reimbursement when the President deems such action to be in the public interest.

2. Strategic and Critical Materials Stockpiling Act, Public Law 520, 79th Congress

This act authorizes the Office of Defense Mobilization to determine (*a*) which materials are strategic and critical, and (*b*) stockpile objectives expressed in terms of quality and quantity of the materials to be stockpiled. It also gives a general guide as to rate of procurement and specifically outlines the procedures to be used in disposal of materials from the stockpile. There is no specific limitation on the quantity or dollar value of materials which may be stockpiled.

3. Agricultural Trade Development and Assistance Act of 1954, Public Law 480, 83d Congress

This act authorized the establishment of the supplemental stockpile to be acquired through use of foreign currencies derived by disposal of surplus agricultural commodities. This supplemental stockpile may be in addition to stockpile objectives established under the Stockpiling Act, Public Law 520 (above).

The act specifically requires compliance with section 3 of the Stockpiling Act with respect to disposal of materials from the supplemental stockpile.

The Agricultural Act of 1956 authorized the transfer of strategic and critical materials acquired by barter or exchange of agricultural commodities to the supplemental stockpile as well as to the national stockpile.

4. The Domestic Minerals Program Extension Act of 1953, Public Law 206, 83d Congress

This act extended for 2 years the termination dates of the domestic premium price purchase programs originally instituted under the Defense Production Act and the Stockpile Act for tungsten, manganese, chromite, mica, asbestos, beryl, and columbium-tantalum. Except for chromite, which is financed with stockpile appropriations, materials acquired under this act were financed from the $2.1 billion borrowing authority and became part of the Defense Production Act inventories.

5. The Domestic Tungsten, Asbestos, Fluorspar, and Columbium-Tantalum Production and Purchase Act of 1956, Public Law 733, 84th Congress

This act provided for the accumulation of quantities of the named materials by the Department of Interior, whose authority was later delegated to GSA. It specifically provided that materials acquired be held for transfer to the national stockpile or the supplemental stockpile. Appropriations covering the cost of this program are made directly to the Interior Department which allocates the funds to GSA.

6. Abaca Production Act of 1950, Public Law 863, 81st Congress

This act authorizes the President to place under cultivation in the Western Hemisphere not to exceed 50,000 acres for the production of abaca fiber. Abaca is a stockpile material and currently, all production is used for rotation of the stockpile inventory.

7. Maintenance of a domestic tin-smelting industry, Public Law 125, 80th Congress

This act as variously extended authorized the RFC and later Federal Facilities Corporation to take such action as was necessary to accomplish the purposes of the act including the operation of the Texas City Tin Smelter, buy, sell, and transport tin, conduct research, etc. Much of the tin produced at the smelter found its way into the national stockpile although considerable amounts were sold to industry.

8. Other laws affecting the materials program

Additional accumulations of strategic raw material by the Government were made possible by specific provisions in other legislation. More specifically, the Mutual Security Act of 1954 and the Federal Property and Administrative Services Act of 1949 provide for transfer of strategic materials to the national stockpile without reimbursement.

INTERRELATIONSHIP OF LEGISLATION IN ACCOMPLISHING THE RAW MATERIALS PROGRAM

This complicated legal structure inevitably led to the accumulation of strategic and critical materials into the numerous "pockets" shown on chart A. Inasmuch as these laws all had separate financing authority and provided for transfers from one inventory to another, it is difficult to show the status and growth of accumulations in each "pocket." Moreover, the complexity of financial transactions and the keeping of separate inventory records imposes a considerable administrative burden and, this is further complicated by the fact that

each inventory has its own statutory restrictions. There is, in short, a real need for consolidation of the various laws in this field.

The executive branch has adopted a coordinated set of policies for implementing these various laws in order to gain effective control of the materials program and to assure a minimum impact on the budget, consistent with defense mobilization objectives. Briefly, these policies provide for the following:

1. Control of the entire program by the Office of Defense Mobilization. This includes but is not limited to: (*a*) Determination of the level of domestic productive capacity and supply from all sources needed during wartime; (*b*) determination of minimum and long-term stockpile objectives; (*c*) determination of the amount of each material to be stockpiled in both the national stockpile and supplemental stockpile; (*d*) recommendations to the Department of Agriculture on materials to be acquired through disposal of agricultural surpluses; and (*e*) continual review of our defense position for each material so as to modify programs, upward or downward, to keep pace with changing market conditions, technological advances, and other factors.

2. Review of policies and financial requirements covering the materials programs by the Bureau of the Budget.

3. Coordination of program development and execution through the use of the Interdepartmental Materials Advisory Committee and the Defense Mobilization Board. GSA as well as all other agencies affected by the foregoing legislation is represented on the Advisory Committee and participates in meetings of the Defense Mobilization Board.

In executing its responsibilities with respect to the materials program, GSA follows the policies established by the ODM. This requires diligence and caution on our part in order to assure that none of the objectives of Congress embodied in the various laws, and the policies used to implement them, are violated.

In order to illustrate how materials accumulations in the various "pockets" are utilized in scheduling current procurement by ODM, I would like to cite the case of muscovite mica, block and film:

(*a*) Mica is a national stockpile item for which ODM has established minimum and long-term objectives. It is also on the list of materials to be acquired for the supplemental stockpile.

(*b*) Accumulations of mica are held in the following inventory pockets: the national stockpile, the Defense Production Act inventory, and the CCC inventory. Since the stockpile objectives for such mica have not been met, material meeting stockpile specifications in the other inventories is transferred to the national stockpile at market prices in accordance with ODM purchase directives.

(*c*) In developing its procurement schedule for this material, ODM gives consideration to the accumulations existing in, or expected to be delivered to, these various pockets. Its procurement directives to GSA specifically require that acquisitions of materials for the national stockpile first be made from Government inventories in these pockets and limit the amount to be procured on the open market.

(*d*) This action assures a minimum Government expenditure from stockpile appropriations and avoids any possibility of bulk procurement on the open market which might tend to upset market conditions.

The accumulation of materials in the various "pockets" also has a direct bearing on the development of programs for the expansion of productive capacity and supply. For each material, a "balance sheet" is prepared showing estimates of total wartime requirements and supply from all sources—domestic production, imports, and Government inventories in the various "pockets"—to arrive at a surplus or deficit position. When the balance sheets show a deficit position, action programs utilizing any or all of the existing legislative authorities are developed to expand capacity and supply to overcome the deficit. This entire process is controlled and coordinated by ODM, which utilizes data furnished by all agencies involved in the determination or forecasting of wartime requirements and supply.

The action program results in certification of the program by ODM to agencies responsible for execution, the allocation of borrowing authority by ODM when appropriate, and such other actions as are necessary to accomplish the objectives of the program.

In view of its functions under the Defense Production Act and the Stockpiling Act, GSA plays the major role in the execution of certified action programs dealing with raw materials.

AUTHORITY PROVIDED BY THE DEFENSE PRODUCTION ACT FOR EXPANDING PRODUCTION

1. Broad authority

The Defense Production Act of 1950, as amended, which created this joint congressional committee, is legislation administered primarily by civilian agencies of the Government. It provides broad authority (*a*) to facilitate the production of goods and services necessary for the national defense and national security, and (*b*) to reduce the time required for full mobilization in the event of an attack on the United States.

Title III of the act authorizes various forms of financial assistance and aid to private contractors, which I will discuss in more detail later, to expedite and make possible the achievement of defense mobilization goals for minerals, metals and other materials generally.

2. Financing—The provision of borrowing authority

In order to finance this part of the defense mobilization expansion program, title III authorizes the President to borrow a maximum of $2.1 billion from the Treasury. The borrowing authority is a unique device for financing the various forms of financial assistance provided in the act. It operates in the nature of a revolving fund, and there is no requirement for an annual review by the appropriation committees of the Congress. There is a requirement, however, for the President to submit quarterly reports to the Congress concerning the transactions entered into.

In utilizing this borrowing authority, the act permits the recording of obligations on the basis of the "probable ultimate net cost to the United States," commonly referred to as PUNC, of each contract or other financial transaction executed under title III. An obligation under the "PUNC" concept includes such nonrecoverable expenses as: (1) losses incurred in purchase and resale operations, (2) over-the-market payments, (3) net losses under commitment-to-purchase programs, (4) losses on loans, (5) contract cancellation charges, (6) payments for research on mining and processing of minerals and metals, and (7) nonrecoverable administrative and operating expenses.

3. Control of borrowing authority

The ODM controls and allocates the $2.1 billion borrowing authority to the various agencies to execute programs which it approved and certified. The certified programs specify (*a*) the gross value of transactions (contracts) authorized to be executed, and (*b*) the amount of borrowing authority needed to finance the program. This is followed by an allocation of borrowing authority by ODM covering estimated nonrecoverable expenses (PUNC) and working capital. Workinf capital covers cash needed to make loans and advances to contractors and to finance purchases of materials.

4. Budget Bureau review of use of borrowing authority

Prior to executing any contracts or incurring obligations under the borrowing authority allocations, the agencies are required to submit a request to the Bureau of the Budget for apportionment of the funds allocated. At this point, the Bureau of the Budget reviews the program to determine whether it meets the following criteria and may withhold apportionments until these criteria are met:

(1) Does the project conform to the program of the President and to governmentwide policies in general?

(2) Is there legislation pending before the Congress for a similar or identical program which may make it inappropriate to use the borrowing authority?

(3) Would the production under the proposed program when added to existing supply and new supply in process of development, be within the expansion goals established by the ODM?

(4) Is the project of a type which is normally financed from appropriated funds which may make use of borrowing authority inappropriate?

(5) Are the estimated financial requirements of the program reasonable and sound and is there sufficient borrowing authority available to cover the program?

5. Overall status of borrowing authority

Of the $2,100 million in total borrowing authority under the act, $1,927,425,000 had been allocated by ODM as of December 31, 1956. Of the total amount allocated, $1,520 million, or approximately 79 percent, had been allocated to GSA. Of the amount allocated to GSA, $1,492,213,000 had been certified and $1,482,213,000 had been apportioned. Of the amount apportioned, a total of

$1,043,700,000 had been borrowed. After deducting repayments to the Treasury, GSA had outstanding $918,700,000 in notes payable to the Treasury Department. These figures do not reflect the gross amount of the transactions by GSA as to which transactions totaling $8,463,369,000 have been certified by ODM and $7,179,460,000 have been entered into.

A summary statement showing the overall status of the borrowing authority by agency program, is attached as exhibit 1.

GSA FUNCTIONS AND TOOLS AVAILABLE FOR EXECUTING THEM

The functions of GSA under the act are prescribed by Executive Order 10480 and relate primarily to the expansion of productive capacity and supply of minerals, metals, and other materials needed for defense mobilization purposes.

In performing these functions, GSA utilized the many tools available to it and succeeded in expediting industrial and mining expansion by—

(1) Recommending to ODM the issuance of rapid tax amortization certificates to contracts.

(2) Making commitment-to-purchase contracts whereby the Government agrees to purchase all or part of the entire output from a new source of supply at a specified price for a specific period of time—if the producer cannot sell his material on the open market.

(3) Entering into firm procurement contracts for materials to be used by the Government or resold to industry.

(4) Guaranteeing loans made to defense contractors.

(5) Certifying direct loans and making advances to contractors.

(6) Maintaining production at high-cost plants and mines by payment of subsidies.

(7) Operating Government-owned plants for the production of minerals and metals.

(8) Purchasing and leasing industrial equipment needed to expedite production of military end items.

(9) Advancing funds for exploration, development, and mining of strategic minerals and metals.

(10) Conducting exclusive purchase and resale operations in commodities, such as rubber.

(11) Entering into contracts for research on minerals and metals.

Generally speaking, these tools may be considered as incentives to industry to expand productive capacity to meet the expansion goals deemed necessary by ODM for maintenance of the mobilization base. In many cases, production at the expansion goal levels when added to normal imports, would exceed the United States consumption level at the time the expansion goals were established. Consequently, industry required some assurance that its investment in capital facilities needed for the mobilization base would be sound and profitable.

This assurance was provided by the Government through utilization of the various tools authorized by the Defense Production Act. In many cases, combinations of two or more of these tools were used in a single program or even for a single project. A few examples will serve to illustrate how these tools were used.

In the case of aluminum, the expansion goal for aluminum called for more than doubling the pre-Korean production rate. To provide the necessary incentives and assurances required by industry for expanding capacity, the Government took the following actions: First, GSA recommended and ODM certified large portions of the cost of capital facilities for accelerated tax amortization; second, GSA entered into commitment-to-purchase contracts with each of the aluminum producers; third, GSA guaranteed loans made by private financial institutions to contractors; and fourth, the GSA paid subsidies to producers for operating facilities using high-cost power.

The case of titanium is very similar to that of aluminum. Expansion of this new industry would undoubtedly not have been achieved so rapidly had not the Government (*a*) provided accelerated tax amortization, (*b*) executed commitment-to-purchase contracts, and (*c*) advanced funds to contractors to finance the construction of facilities. We have also underwritten the cost of research designed to improve production, reduce unit costs, and improve utilization of this material.

Similarly, *the expansion of the nickel industry* involved tax amortization, advances, procurement contracts, reactivation and expansion of a Government-owned facility, and research contracts involving both domestic as well as foreign contractors.

GSA PERFORMANCE UNDER THE DEFENSE PRODUCTION ACT

I would like at this point to give the committee a brief résumé of the extent to which GSA utilized these tools from the inception of the Defense Production Act expansion program in 1950 through December 31, 1956. All of the tools except that dealing with tax amortization stem from the Defense Production Act.

The first tool, which is related to the Defense Production Act but is set out in the Internal Revenue Code, is that of providing certificates authorizing accelerated tax amortization. GSA's function in relation to these certificates is that of recommending their issuance by the Director of the Office of Defense Mobilization. The percentage of amortization is determined by ODM.

In our negotiations with contractors, we have as a matter of practice, attempted to use this tool alone to get the contractors to expand capacity in order to avoid other long-range Government commitments or the outlay of Government funds.

Since the enactment of the Defense Production Act, the GSA recommended issuance of 479 tax amortization certificates covering facilities with an estimated cost of $2,870 million. Details of this program are shown in exhibit 3.

The second tool is the broad authority under section 303 (a) of the Defense Production Act to make firm purchase contracts and to enter into commitments to purchase metals, minerals, and other materials, except food and certain plant fibers.

This tool has particular significance in expanding production, since it provides producers with a guaranteed market for all or a part of their expanded production. Contracts for minerals and metals provide for firm purchases of fixed quantities, for "puts" and "calls" or a combination of these methods. Under the "put-call" provision the contractor may "put" certain quantities at a floor price during the period covered by the contract, if the material cannot otherwise be sold. Similarly, the Government may "call" certain quantities during the contract period at a specified price.

In addition "open" purchase programs, principally domestic, were instituted for seven materials under which the Government accepted all material meeting its specifications within certain time and quantity limitations.

A program was initiated to attain the stockpile peril point for rubber and to achieve national security in rubber. The program was in effect from December 29, 1950, through June 30, 1952. Under the program, GSA imported all crude natural rubber and then resold the rubber to industry or the stockpile in accordance with directives from the Defense Production Administration, a predecessor of ODM.

In summary, the use of this tool resulted in gross transactions of $7,179 million of which $1,291 million was for machine tools, $4,935 million for minerals and metals, $883 million for rubber and $71 million for Treasury interest, custodial and administrative expenses. Details by commodity are presented in exhibit 2.

The third tool is the authority of GSA under section 301 of the act as a guaranteeing agency to guarantee in whole or in part loans by public or private financing institutions to producers of materials for the national defense. By December 31, 1956, GSA had guaranteed 26 loans having a gross value of $165 million. The percentage guaranteed by the Government ranged from 70 to 100 percent. These guaranties assisted in expanding such industries as aluminum, machine tools, manganese, and chrome. With one exception, this tool has not been used since March 1955. The status of these loan guaranties is detailed in exhibit 5.

The fourth tool is that involving Government loans to expedite production and deliveries of goods or services. The lending authority is now vested in the Defense Lending Division of the Treasury Department (formerly in the Reconstruction Finance Corporation) for domestic loans and in the Export-Import Bank of Washington for foreign loans. GSA is not itself a lending agency but does certify to the two lending agencies as to the essentiality of loans for the expansion of productive capacity and supply of materials and facilities necessary for the national defense. As of December 31, 1956, 18 loans were certified by GSA and approved by these agencies. Actual value of loans made was $139 million of which the balance outstanding is $108 million. Loans were made to contractors producing copper, manganese, and several other materials. The status of these loans is shown in exhibit 6.

The fifth tool available to GSA under the Defense Production Act of 1950 is the authority under section 303 (b) to make advance payments in connection with purchases of metals, minerals, and other materials. Thus far, advances made totaled $189 million, of which $54 million were made to expedite production of

machine tools and $135 million for expanding productive capacity and supply of minerals and metals, principally titanium and nickel. All advances to machine-tool contractors have been repaid except for $96,000 and $63 million remains to be paid by minerals and metals contractors. A summary of this activity is shown in exhiblt 7.

The sixth tool is the authority set out in section 303 (c) which provides for subsidy payments on domestically produced materials other than agricultural commodities under certain conditions. These payments have amounted to $21 million and involved copper, aluminum, and zinc. Details of this activity are shown in exhibit 8. This tool has not been used since prior to the termination of title IV in April 1953.

The seventh tool is the authority under section 303 (e) to install equipment in Government-owned plants as well as in privately owned plants. This authority is in addition to the second tool previously mentioned which provided authority to purchase or make commitments to purchase under section 303 (a). In utilizing these two tools, GSA embarked on an extensive machine-tool program which included the following:

(*a*) Commitment to purchase contracts were executed under the machine-tool-pool order program which provided for manufacture of 92,096 tools valued at $1,253 million. This program has been completed and the Government actually had to purchase only 825 tools valued at $10 million.

(*b*) A program for leasing Government-owned tools to industry was undertaken to expedite production of military end items. These tools were taken from deliveries under firm purchase and pool order contracts and from the NIER. At the peak of the program, 2,734 tools valued at $32 million were leased. As of December 31, 1956, there are 1,828 tools valued at $14.5 million still out on lease. Revenues from leases have totaled over $14 million.

(*c*) Three contracts valued at $5 million for construction of "elephant" machine tools have been executed. These tools are long-lead time items used in the manufacture of other machine tools.

(*d*) Contract negotiations are underway for expanding production of marine turbines and gears. This may involve a probable ultimate net cost of about $50 million.

(*e*) Standby contracts have been executed for the M-day machine-tool-pool order program. However, these contracts will become effective only when "triggered" by the Government in a future emergency. This involves 80 contracts calling for production of 12,918 tools valued at $228 million.

A summary of financial transactions affecting machine tools is shown in exhibit 9.

The eighth tool is the authority to enter into research and development contracts. Such contracts help to alleviate the critical position with respect to certain materials even though they do not directly add any significant quantities of materials to the Defense Production Act inventories. This authority is derived from the purchase authority in section 303 taken in connection with the definition of "materials" in section 702 (b) to include technical information and processes.

Research contracts executed by GSA cover such things as (*a*) development of synthetics and substitutes, (*b*) construction of pilot plants to test feasibility and economy of new processes of extraction or refinement of metals, and (*c*) testing and assaying of samples from new domestic ore bodies.

Utilization of this tool resulted in the execution of 30 contracts valued at $13.5 million for research and development in such materials as titanium, manganese, nickel, selenium, and mica. A listing of each contract, its cost, purpose, and status is shown in exhibit 10.

The ninth tool is the authority under section 303 (d) to transport and store, and have processed and refined any materials procured under the act. This tool is an enlargement of the purchasing authority and embraces, as well, the authority for making research and development contracts and for making advance payments.

This tool was used for reactivation and operation of Government-owned nickel, magnesium, and graphite plants. In exhibit 11 there is presented a statement showing cost of reactivation and deactivation and data on production and sales of materials produced at the plants. I will also discuss later, the Nicaro nickel operation.

With respect to refining or upgrading materials procured under the act, only one contract covering beneficiation of tungsten ores has been executed.

OVERALL STATUS OF DEFENSE PRODUCTION ACT RAW MATERIALS INVENTORY

As of December 31, 1956, the inventory of minerals and metals acquired by GSA under the Defense Production Act program was valued at $609 million and consists principally of tungsten, titanium, columbium-tantalum, and manganese. Details of this inventory, by material, are shown in exhibit 12.

OVERALL STATUS OF THE NATIONAL STOCKPILE

As of December 31, 1956, the total value of all stockpile objectives was $11 billion, of which $6.6 billion is for minimum objectives and $4.4 billion for long-term objectives. Procurement toward these objectives amounted to $6.8 billion (62 percent), leaving a balance of $4.2 billion (38 percent) for future acquisition. A summary of this activity is shown in exhibit 14.

PHYSICAL INVENTORY OF DEFENSE MATERIALS

At this time, I would like to say a few words about our physical-inventory program. GSA is engaged in taking a physical inventory of the defense materials for which it has storage responsibility. A physical inventory of this magnitude and complexity has never before been undertaken. It involves some 75 materials stored in commercial and Government warehouses, plant sites, vaults, and tanks. The materials vary widely in bulk and packaging, thus necessitating special storage and inventory taking techniques.

The inventory consists of $7 billion of materials in the national stockpile, Defense Production Act, and CCC barter program inventories which are stored at approximately 225 locations. The basic guidelines we are observing in taking this inventory are as follows:

1. Actual counting, weighing, or measuring in accordance with accepted inventory procedures will be utilized.
2. The inventory is being taken on a location-by-location basis. Different types of materials require different inventory procedures and situations vary according to the storage conditions at each individual storage location. Procedures have been developed which take into account the specific problems.
3. Where we find material that is stored in such a manner that we cannot inventory it, we are restacking it to the extent necessary to enable us to count, weigh or measure. As we proceed, we are also inspecting containers and, where they are found to be inadequate or in an advanced state of deterioration, we are repackaging the material into suitable containers, thus upgrading the qualitative maintenance of the materials.

(*a*) *Progress*

Following is the status of the physical inventory taking as of May 1, 1957, of the 166 locations presently scheduled:

Of the 15 GSA-operated depots, the physical inventories have been completed at 2 locations. The inventories are substantially completed at 2 other locations and schedules have been set for the remaining 11 GSA depots.

As of this date there are 86 commercial locations where materials are stored. Physical inventories have been taken at the 4 locations where oil is stored and at 37 of the 46 locations where cotton is stored. The Department of Agriculture has inventoried semiannually 25 of the cotton locations and furnished certificates to that effect to GSA. No physical inventories will be taken at any commercial location where it is known that all material in storage will be evacuated during the 3-year period. Plans have been made to start the physical inventories at all of the remaining commercial locations during the current fiscal year. Inventories have already been started at nine of these locations as of this date.

A plan has been developed for the taking of the inventories at the 65 military depots and is now being reviewed by the Department of Defense. Under this plan the military departments will inventory the materials stored at their depots under the guidance of GSA.

(*b*) *Cost of taking the inventory*

GSA originally estimated that the cost of taking the inventory would be about $26 million. Based on experience gained thus far, techniques and procedures have been improved and refined with the result that our cost estimate has been reduced to $15.4 million. This includes restacking, some repackaging, and the actual inventory taking.

NICARA NICKEL PROJECT

(a) *Background*

One of the major projects undertaken in the minerals and metals program was the reactivation and expansion of the Government-owned nickel plant in Cuba. The original investment of the United States Government in this plant was made by the Reconstruction Finance Corporation during World War II, after which the investment was transferred to GSA. The plant was shut down when the war ended.

Shortly after the start of the Korean emergency, the plant was reactivated to meet the needs of the defense effort. More recently, after clearance with this joint committee, ODM authorized an expansion in plant capacity of about 75 percent at an estimated cost of $43 million. This expansion was completed in March 1957.

(b) *Capital expenditures*

As of December 31, 1956, General Services Administration had invested $56.1 million in capital improvements at the Nicaro plant since reactivation in 1951. This amount includes $20.9 million for rehabilitation, minor plant improvements, exploration and acquisition of new ore bodies, and $35.2 million for plant expansion. The original plant was transferred to GSA at an adjusted acquisition cost of $31.6 million.

(c) *Research program*

A research program is underway to test improved processes for increasing the recovery of nickel from the ores. Preliminary laboratory work indicates a potential increase in recoveries as high as 10 percent and plans are underway to move from the laboratory to a pilot-plant operation. The pilot plant has been designed and is being constructed this year at a cost of approximately $900,000. If successful, these improvements will add about $450,000 to the net annual returns from the operation for each 1 percent increase in recoveries.

(d) *Production and sales data*

The current estimated annual capacity is 50 million pounds, an increase of approximately 20 million pounds over the original capacity. During the period from January 31, 1952, through December 31, 1956, a total of 128 million pounds of nickel oxide and ingot had been sold by GSA to the national stockpile and industry.

Sales to industry during this period were at published market prices and totaled $50.3 million and averaged 57.8 cents per pound. Sales to the stockpile are at production cost, including amortization. These sales totaled $18.7 million at an average price of 45.3 cents per pound during the period.

(e) *Distribution of production*

For Nicaro to operate on a sound economic basis, either under Government operation or by private industry, it is deemed essential that Nicaro's market be extended to all echelons of the nickel consuming industry.

Under the "equitable distribution system," over 95 percent of Nicaro's production has been going to the steel industries for production of stainless steel or alloy. However, arrangements are being completed to make approximately 1 million pounds per month of nickel oxide sinter and nickel metal available for conversion to anodes for the plating industry, through regular plating supply outlets. Consideration is also being given to a plan to make nickel oxide powder available to the chemical industry for conversion to salts and catalytic materials.

(f) *Status of operations*

The NPA certificate authorizing the operation has been extended. The existing operating contract expires on or about July 15, 1957, but with the approval of the Secretary of Defense, under Public Law 883, 80th Congress, an extension of this contract to December 31, 1957, is being negotiated.

A final decision has not been reached as to whether the Nicaro operation will be continued thereafter under a Government contract, or by private industry.

CONCLUSION

This concludes my statement and I will be pleased to answer any questions the committee may have with respect to GSA's operations under this program.

CHART A

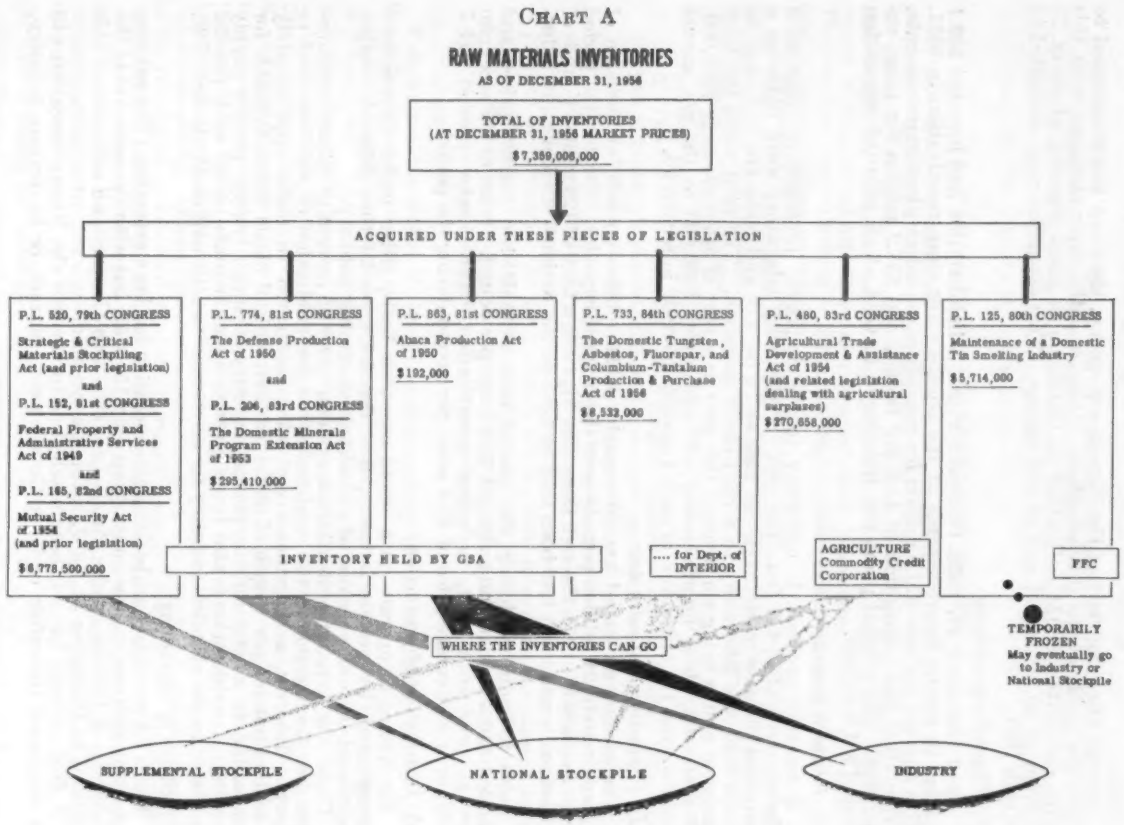
RAW MATERIALS INVENTORIES
AS OF DECEMBER 31, 1956
TOTAL OF INVENTORIES
(AT DECEMBER 31, 1956 MARKET PRICES)
$7,359,006,000
ACQUIRED UNDER THESE PIECES OF LEGISLATION
P.L. 520, 79th CONGRESS
Strategic & Critical Materials Stockpiling Act (and prior legislation)
and
P.L. 152, 81st CONGRESS
Federal Property and Administrative Services Act of 1949
and
P.L. 165, 82nd CONGRESS
Mutual Security Act of 1954 (and prior legislation)
$6,778,500,000
P.L. 774, 81st CONGRESS
The Defense Production Act of 1950
and
P.L. 206, 83rd CONGRESS
The Domestic Minerals Program Extension Act of 1953
$295,410,000
P.L. 863, 81st CONGRESS
Abaca Production Act of 1950
$192,000
P.L. 733, 84th CONGRESS
The Domestic Tungsten, Asbestos, Fluorspar, and Columbium-Tantalum Production & Purchase Act of 1956
$8,532,000
P.L. 480, 83rd CONGRESS
Agricultural Trade Development & Assistance Act of 1954 (and related legislation dealing with agricultural surpluses)
$270,658,000
P.L. 125, 80th CONGRESS
Maintenance of a Domestic Tin Smelting Industry
$5,714,000
INVENTORY HELD BY GSA
.... for Dept. of INTERIOR
AGRICULTURE Commodity Credit Corporation
FFC
TEMPORARILY FROZEN
May eventually go to Industry or National Stockpile
WHERE THE INVENTORIES CAN GO
SUPPLEMENTAL STOCKPILE
NATIONAL STOCKPILE
INDUSTRY

EXHIBIT 1

Allocation, certification, and balance of borrowing authority available under the Defense Production Act, as amended, as of Dec. 31, 1956

[Thousands of dollars]

Activities	Allocations and reserves	Certifications			Repayments	Balance available for program
		Working capital	Probable ultimate net cost	Total		
Under sec. 302:						
Department of Treasury	256,000	313,974		313,974	83,075	25,101
Export-Import Bank	50,000	43,838		43,838	6,244	12,406
Subtotal	306,000	357,812		357,812	89,319	37,507
Under sec. 303:						
General Services Administration	1,520,000	547,814	944,399	1,492,213		27,787
Department of Treasury	1,600		1,600	1,600		0
Department of Interior	34,000		30,503	30,503		3,497
Department of Agriculture	65,825		65,801	65,801		24
Subtotal	1,621,425	547,814	1,042,303	1,590,117		31,308
Total	1,927,425	905,626	1,042,303	1,947,929	89,319	68,815
Reserve unallocated by Office of Defense Mobilization	172,575					172,575
Total fund	2,100,000					
Total available for new programs						241,390

Utilization of authority to borrow from U. S. Treasury as of Dec. 31, 1956

[Thousands of dollars]

Agencies authorized to borrow from U. S. Treasury	Total borrowing authority allocated	Transactions with U. S. Treasury			Available for borrowing
		Cumulative amount		Balance outstanding	
		Borrowed	Repaid		
Total	1,927,425	1,429,009	224,663	1,204,346	723,079
General Services Administration	1,520,000	1,043,700	125,000	918,700	601,300
Department of Treasury (RFC)	257,600	269,930	92,710	177,220	80,380
Export-Import Bank	50,000	44,043	6,953	37,090	12,910
Department of Agriculture [1]	65,825	47,336	0	47,336	18,489
Department of Interior	34,000	24,000	0	24,000	10,000

[1] In addition, CCC funds are being used temporarily in lieu of borrowing from the Treasury.

EXHIBIT 2

Programs certified to General Services Administration, by Office of Defense Mobilization, under Defense Production Act of 1950, as amended, as of Dec. 31, 1956

[Thousands of dollars]

Certificates No.	Program	Gross transactions certified	Borrowing authority certified [1]			Gross transactions consummated
			Borrowing authority total	Probable ultimate net cost	Working capital	
GSA 349	Aluminum	1,528,406	20,014	20,014	0	1,555,079
GSA 283	Asbestos	5,451	2,651	642	2,009	2,147
GSA 322	Bauxite	38,600	0	0	0	25,540
GSA 364	Beryllium	2,799	1,082	725	357	2,871
GSA 285	Bismuth	1,013	0	0	0	1,013
GSA 286	Chrome	44,530	35,549	35,549	0	40,751
GSA 340	Cobalt	121,591	64,519	1,313	63,206	114,370
GSA 350	Columbium-tantalum	98,715	77,820	50,320	27,500	98,514
GSA 351	Copper	650,000	0	0	0	675,991
GSA 290	Cryolite	16,342	12,652	4,467	8,185	15,541
GSA 126	Dolomite	20,000	0	0	0	20,000
GSA 291	Flurspar	17,219	16,789	4,287	12,502	15,839
GSA 292	Graphite	901	901	901	0	899
GSA 327	Iron ore	0	0	0	0	0
GSA 294	Lead	20,683	1,698	1,698	0	20,817
GSA 344	Machine tools (pool)	1,334,500	30,700	30,700	0	1,285,744
GSA 342	M-day machine tool pool order	256,000	21,000	3,000	18,000	0
GSA 246	Machine tool (elephant)	15,000	12,000	12,000	0	4,800
GSA 343	Marine turbine and gear	50,000	50,000	50,000	0	0
GSA 352	Magnesium	129,548	18,458	18,458	0	120,480
	Manganese:					
GSA 363	Metallurgical	413,113	123,055	123,055	0	454,163
GSA 296	Electro	10,800	10,800	0	10,800	10,080
GSA 372	Battery and chemical	0	0	0	0	0
GSA 362	Synthetic dioxide	5,040	720	720	0	4,608
GSA 299	Mercury	54,120	0	0	0	45,000
GSA 370	Mica	139,081	64,483	35,983	28,500	48,241
GSA 300	Mineral development	460	360	360	0	382
GSA 328	Molybdenum	178,881	65,360	22,268	43,092	154,192
GSA 348	Nickel	849,984	255,316	160,503	94,813	705,509
GSA 341	Rare earths	5,250	5,250	3,500	1,750	0
GSA 239	Rubber	886,603	0	0	0	882,704
GSA 336	Rutile	11	11	11	0	11
GSA 304	Scrap (nonferrous)	533	107	107	0	533
GSA 366	Selenium	288	288	288	0	288
GSA 324	Tin	182,203	37,536	5,686	31,850	179,471
GSA 316	Titanium	895,000	128,700	128,700	0	215,096
GSA 354	Tungsten	374,752	340,209	134,959	205,250	370,056
GSA 332	Zinc	31,382	9,615	9,615	0	28,948
	Subtotal	8,378,799	1,407,643	859,829	547,814	7,108,678
GSA 368	Custodial	5,780	5,780	5,780	0	3,389
GSA 367	U. S. Treasury interest	65,178	65,178	65,178	0	52,797
GSA 369	Administrative expenses	13,612	13,612	13,612	0	14,596
	Grand total	8,463,369	1,492,213	944,399	547,814	7,179,460

[1] Funds provided under sec. 304 (b) of Defense Production Act, as amended.

EXHIBIT 3

Tax amortization certificates recommended by GSA to ODM, cumulative through Dec. 31, 1956

Commodity	Number of certificates issued	Total estimated cost of facilities (in thousands)	Normal percentage subject to accelerated amortization
Alumina	12	$132,491	80
Aluminum	37	745,119	80
Antimony	1	194	60
Arsenic	1	465	65
Barite	6	2,271	30
Bauxite	8	30,041	80
Borates	1	1,966	25
Bromine	7	5,061	50
Cadmium	2	276	60
Columbium, tantalum	3	3,685	80
Cryolite	10	6,659	75
Copper	31	228,525	75
Diatomite	3	6,355	35
Fluorspar and fluorides	9	4,282	65
Garnet	1	299	60
Germanium	1	110	70
Gypsum	1	158	60
Iron, including taconite	145	1,244,300	65
Lead and zinc	50	63,314	60
Lime, limestone and dolomite	44	48,697	60
Manganese	9	18,756	75
Magnesium	8	7,024	50
Mercury	2	1,091	80
Molybdenum	3	22,994	75
Mica:			
Natural sheet	2	1,254	45
Synthetic sheet	1	208	90
Mullite	1	47	65
Nickel	4	90,151	82
Phosphate rock	6	11,621	50
Quartz crystals	5	632	50
Refractory clay	1	1,213	85
Refractory magnesias	10	19,691	65
Rare earths	3	4,219	75
Rutile and manazite	4	2,182	65
Salt	1	451	50
Sand	2	805	30
Selenuim	2	101	70
Soda ash	1	16,200	30
Sulfur	6	22,342	70
Titanium	14	117,779	90
Tungsten	17	5,960	65
Total	475	2,808,989	

EXHIBIT 4

General Services Administration—Summary of procurement activity in minerals and metals under the Defense Production Act of 1950, as amended cumulative through Dec. 31, 1956

Commodity	Total purchases	Dec. 31, 1956, inventory at cost	Sales from inventory			Operating [1] expense	Net operating profit or (loss)	Dec. 31, 1956, market value of inventory
			Received from sales	Government cost	Gain or (loss)			
Aluminum (pig)	$205,934,245	$44,181	$206,004,884	$205,890,064	$114,820	$19,400	$95,420	$46,468
Aluminum subsidy (power)						19,108,397	(19,108,397)	
Aluminum sheet	4,783,156	0	5,036,339	4,783,156	253,183	84,000	169,183	0
Asbestos	2,102,575	2,102,575	0	0	0	50,400	(50,400)	1,394,484
Bauxite	3,019,573	2,513,579	505,994	505,994	0	6,450	(6,450)	2,502,581
Beryllium ore	799,274	300,998	398,541	498,276	(99,735)	187,500	(287,235)	233,980
Bismuth ore	52,362	52,362	0	0	0	0		51,525
Chrome	19,228,840	16,525,216	2,468,089	2,703,624	(235,535)	630,000	(865,535)	8,551,449
Cobalt	2,404,058	472,160	1,695,166	1,931,898	(236,732)	0	(236,732)	442,132
Columbium-tantalum	71,403,436	53,783,445	10,484,158	17,619,991	(7,135,833)	1,092,000	(8,227,833)	19,077,153
Columbium-tantalum subsidy						6,276,886	(6,276,886)	
Copper	47,435,096	13,431,716	37,627,100	34,003,380	3,623,720	520,000	3,103,720	16,077,638
Copper subsidy						1,905,060	(1,905,060)	
Cryolite	15,306,613	10,728,244	3,619,369	4,578,369	(959,000)	219,500	(1,178,500)	10,101,260
Fluorspar	14,192,156	13,775,431	430,789	416,725	14,064	49,200	(35,136)	10,861,410
Graphite	177,545	177,545	0	0	0	56,800	(56,800)	53,308
Lubricating graphite development						173,858	(173,858)	
Lead	11,655,408	499,872	11,110,464	11,155,536	(45,072)	25	(45,097)	434,921
Magnesium	122,754,518	0	110,860,262	122,754,518	(11,894,256)	3,500,498	(15,394,754)	0
Manganese	89,624,826	69,335,031	13,270,757	20,289,795	(7,019,038)	3,645,615	(10,664,653)	24,698,420
Mercury	1,125	1,125	0	0	0	94	(94)	1,275
Mica	18,218,891	10,716,977	2,778,103	7,501,914	(4,723,811)	16,800	(4,740,611)	1,805,755
Molybdenum	39,973,667	0	38,457,048	39,973,667	(1,516,619)	84,000	(1,600,619)	0
Nickel	191,804,164	9,346,500	153,639,307	182,457,664	(28,818,357)	2,402,500	(31,220,857)	7,599,216
Rutile						10,050	(10,050)	0
Scrap (nonferrous)	532,904	0	426,313	532,904	(106,591)	0	(106,591)	0
Selenium						118,868	(118,868)	0
Tin	176,595,817	1,040,397	174,082,935	175,555,420	(1,472,485)	19,400	(1,491,885)	1,082,906
Titanium	86,275,510	82,458,505	3,912,375	3,817,005	95,370	1,420,000	(1,324,630)	48,443,200
Tungsten	362,521,416	321,066,151	34,540,972	41,455,265	(6,914,293)	2,242,500	(9,156,793)	141,040,054
Zinc	27,720,729	1,158,091	20,962,058	26,562,638	(5,600,580	173,000	(5,773,580)	911,234
Total	1,514,517,904	609,530,101	832,311,023	904,987,803	(72,676,780)	44,012,801	(116,689,581)	295,410,369

Metals and minerals expenses not included above:								
Research and development							(460, 825)	
Depreciation							(78, 470)	
Losses on accounts receivable and advances							(173, 537)	
Loss on disposal of assets							(1, 396, 978)	
Other							(235, 256)	
Total							(2, 345, 066)	
Total income from interest, rentals, etc							17, 544, 152	
Total net included above							15, 199, 086	
Nonrecoverable losses and expenses [2]							(101, 490, 495)	

[1] Total operating expense for the period July 1, 1956, to Dec. 31, 1956, is apportioned on the basis of past experience.

[2] Does not include administrative and custodial expenses, interest to U. S. Treasury, etc., which are not distributed to individual commodity programs. See exhibit 13 for overall statement of profit and loss.

EXHIBIT 5

General Services Administration—Loans guaranteed under sec. 301 of the Defense Production Act, 1950, as amended, cumulative through Dec. 31, 1956

Commodity	Number of loans	Maximum amount authorized	Average percentage guaranteed	Amount of loans outstanding	Guarantee on amount outstanding	Remarks
Aluminum	2	$120,750,000	79	$4,487,400	$4,263,030	1 loan open, of $44,000,000 authorized for this loan, $4,487,400 has been disbursed leaving a blanace available for disbursement of $39,512,600.
Chrome	1	1,500,000	70	464,251	324,976	1 loan open as of Dec. 31, 1956, paid in full Apr. 24, 1957.
Dolomite	1	2,625,000	80			Closed loan.
Magnesium	2	386,000	74			Closed loans.
Manganese	2	4,750,000	92			Do.
Tantalum-columbium	1	2,850,000	90	2,850,000	2,565,000	1 loan open, fully disbursed, loan current.
Tin-tungsten	1	374,400	100			Closed loan.
Pallets (for storage of quebracho-tanning extract).	1	60,000	90			Do.
Hospital equipment	1	850,000	85			Do.
Machine tools	14	31,212,000	84	5,053,126	4,958,251	3 loans open, fully disbursed, loans current.
Total	26	165,357,400	81	12,854,777	12,111,257	

NOTE.—Income from fees since inception to Dec. 31, 1956, amounts to $3,793,018.

EXHIBIT 6

Loans certified by General Services Administration and made under sec. 302 of the Defense Production Act, as amended, cumulative through Dec. 31, 1956

Commodity	Number of loans certified	Lending agency		Amount authorized by lending agency	Amount disbursed	Amount repaid	Amount charged off	Balance outstanding
		Reconstruction Finance Corporation	Export-Import Bank of Washington					
Beryl	1	1		$44,545	$44,545	$12,900	$31,645	$0
Copper	3	1	2	121,900,000	115,280,069	22,745,862	0	92,534,207
Iron ore	1	1		57,500	57,500	57,500	0	0
Lime rock	1	1		92,000	92,000	60,618	0	31,382
Manganese (metallurgical)	1		1	15,000,000	15,000,000	0	0	15,000,000
Molybdenum	1		1	540,000	540,000	378,000	0	162,000
Tungsten	3	3		123,997	123,997	74,175	0	49,822
Zinc	7	6	1	1,079,500	1,078,550	742,703	148,787	187,060
Total	18	13	5	138,837,542	132,216,661	24,071,758	180,432	107,964,471

EXHIBIT 7

General Services Administration—status of advances to contractors under Defense Production Act of 1950, as amended, cumulative through Dec. 31, 1956

	Advances	Repayments	Writeoffs	Balance outstanding
Minerals and metals program:				
Aluminum	$15,735,000.00	$15,735,000.00	0	0
Beryllium	34,164.10	34,164.10	0	0
Chrome	3,445,286.36	3,422,789.53	0	$22,496.83
Columbian-tantalum	155,471.00	155,471.00	0	0
Copper	533,665.00	533,665.00	0	0
Fluorspar	1,279,501.13	963,470.61	0	316,030.52
Manganese	9,117,089.13	3,102,233.20	$79,329.84	5,935,526.09
Nickel	49,533,188.38	28,168,860.02	0	21,364,328.36
Tin	2,841,258.30	113,105.22	0	2,728,153.08
Titanium producers	51,717,984.50	19,309,504.43	0	32,408,480.07
Tungsten	88,109.00	88,109.00	0	0
Zinc	370,000.00	0	45,000.00	325,000.00
Total minerals and metals	134,850,716.90	71,626,372.11	124,329.84	63,100,014.95
Machine tool program: Machine tool pool manufacturers	53,781,701.80	53,615,615.74	69,697.00	96,389.06
Total advances	188,632,418.70	125,241,987.85	194,026.84	63,196,404.01

General Services Administration—activities under the Defense Production Act—subsidies paid under sec. 303 (c)

Commodity and contractor	Amount paid in subsidies	Basis for subsidy
ALUMINUM		
Aluminum Company of America.	$2,068,160	This program was established for the Government to absorb the excess cost of purchased power over the cost of privately generated power, during the construction of private generating facilities. The subsidy covers the payment of $2,068,160 for the cost, in excess of 4 mills per kilowatt-hour, of 939,147,297 kilowatt-hours.
Kaiser Aluminum & Chemical Corp.	1,134,122	This program was established for the Government to absorb the excess cost of purchased power over the cost of privately generated power, during the construction of private generating facilities. Subsidy paid covers $953,360 for the cost, in excess of 4 mills per kilowatt-hour, for 311,054,200 kilowatt-hours of purchased power plus $180,763 cost of specially installed facilities required for delivery of power to plant location.
Aluminum Company of America.	11,569,512	Subsidy program to cover excess power cost of reactivated facilities and excess power cost resulting from water shortages in Pacific Northwest.
Reynolds Metals Co.	3,835,921	Do.
Kaiser Aluminum & Chemical Corp.	666,002	Do.
Subtotal	19,273,717	
COPPER		
Howe Sound Co.	458,916	Program was designed to keep in production those copper mines which would go out of production as a result of increased costs and fixed ceiling prices. Contracts were consummated for 30,434 short tons at an average subsidy of $127.39 per ton. Contracts were terminated on removal of copper from price regulation in March 1953. Actual subsidy paid to end of program was $1,905,060 for 16,201 tons of copper.
Copper Range Co.	253,666	Do.
Sam Knight mining lease.	91,089	Do.
Yucca Mining & Milling Co.	121,494	Do.
Banner Mining Co.	210,920	Do.
Calumet & Hecla, Inc.	768,975	Do.
Subtotal	1,905,060	
ZINC		
W. M. & W. Mining Co.	18,065	Program was designed to keep in production those domestic zinc mines which would go out of production as a result of increased costs and fixed ceiling prices. Contract has been made for 5,750 tons of 60 percent zinc concentrates at an average subsidy of $16.86 per ton. Program terminated with removal of ceiling prices and actual subsidy has been $18,065.
Grand total	21,196,842	

EXHIBIT 9

General Services Administration—Status of machine-tool programs under Defense Production Act of 1950, as amended, as of Dec. 31, 1956

Program	Number of leases	Number of machines	Value
I. Pool-order program:			
1. Total orders placed		92,096	$1,253,440,385
2. Deduct cancellations due to expiration of contracts		5,281	98,221,784
3. Net orders		86,815	1,155,218,601
4. Deliveries (at contract price):			
(a) To industry		85,990	1,143,477,295
(b) To GSA (acquisition cost $10,437,691) [1]		825	11,741,306
Total		86,815	1,155,218,601
5. Disposal of tools delivered to GSA:			
(a) Sales to industry		331	3,920,770
(b) Transferred to machine-tool lease program (II below)		8	181,916
(c) Subtotal		339	4,102,686
6. Balance available for sale (in storage)		486	6,335,005
II. Machine-tool lease program:			
1. Total number of leases to industry	123	2,734	[2] 31,371,091
2. Deduct leases expired or terminated	50	906	16,882,279
3. Leases still in effect	73	1,828	14,488,812
4. Disposition of machine tools returned from lease:			
(a) Sales to industry		610	11,331,618
(b) Placed in storage		280	5,048,987
(c) Transfers to other programs:			
(1) Elephant machine-tool program		11	278,538
(2) National industrial reserve		4	194,231
(3) Cuban Nickel Co		1	28,905
(4) Subtotal		16	501,674
(d) Total disposition		906	16,882,279
III. Elephant machine-tool program:			
1. Machines acquired for leasing:			
(a) Transfer from machine-tool lease program		11	278,538
(b) Purchases		308	4,445,295
2. Total on lease	3	319	4,723,833
IV. Net GSA investment in tool programs:			
1. Machines on lease	76	2,147	19,212,646
2. Machines in storage		769	11,399,865
Total	76	2,916	30,612,511
V. Income from rentals:			
1. Current annual rate; 2x (July 1–Dec. 31, 1956)			2,645,722
2. Cumulative through Dec. 31, 1956			14,255,965

[1] Under terms of the pool-order contracts, machine tools which the producer could not sell were acquired by GSA at a price which excluded the contractor's profit and selling expense.

[2] Includes machine tools transferred from pool order program; also, adjustment of $326,582 for capitalized costs transferred to program expense.

EXHIBIT 10

General Services Administration activities under Defense Production Act—Research and development contracts cumulative through Dec. 31, 1956

Commodity and contractor	Contract date	Estimated cost	Net expenditures through Dec. 31, 1956	Contract status	Purpose of contract
BERYLLIUM					
Bureau of Mines	Sept. 15, 1952	$150,000	$149,902	Complete	To investigate metallurgical techniques on recovery of beryl from ores of Kings Mountain, N. C.
COLUMBIUM-TANTALUM					
Bureau of Mines	Oct. 6, 1952	375,000	297,934	do	To investigate sources of columbium-tantalum and to investigate processes for extraction and separation of columbium-tantalum from various types of ores and concentrates.
U. S. Geological Survey	Oct. 30, 1952	250,000	229,017	Active	To locate and sample deposits of columbium-tantalum and to prepare maps of most promising sources.
Total, columbium-tantalum		625,000	526,951		
MANGANESE					
National Academy of Sciences	Aug. 1, 1952	294,000	242,466	Active	To study and review proposals submitted to GSA for research and development on manganese and other minerals and metals.
Southwestern Engineering Co	Oct. 21, 1952	250,000	250,061	Complete	To perform comprehensive applied research on commercial utilization of typical manganese wad ores of various localities in the United States.
Mangaslag, Inc	Dec. 31, 1952	1,320,000	1,299,864	do	To pilot plant a process for production of ferromanganese from open-hearth slags.
E. S. Nossen Laboratories, Inc	June 30, 1953	489,000	516,220	do	To develop and test the Nossen nitric acid process for production of manganese dioxide from Aroostook ores of Maine.
L. W. King	Aug. 30, 1954	30,000	29,335	do	To test an acid-leaching process for the recovery of manganese carbonate and cobalt and nickel oxides from White Oak Mountain ore from Tennessee.
Singmaster & Breyer	Feb. 11, 1955	31,119	31,119	do	To study results of operations under the Mangaslag project and make recommendations on advisability of continuing the project.
Bureau of Mines	July 1, 1955	20,000	3,973	Active	To test and assay mineral samples submitted by GSA.
Ores Beneficiation, Inc	Sept. 12, 1955	252,100	225,528	do	To test the Bruce Williams patented process for beneficiating low-grade, domestic, manganese ores.
Battelle Memorial Institute	Apr. 27, 1956	18,000	12,033	Complete	To conduct a thorough review of the Nossen process for recovery of manganese from low-grade domestic ores for the purpose of evaluating results accomplished under separate contract with E. S. Nossen Laboratories, Inc.
Total, manganese		2,704,219	2,610,599		
MICA					
National Bureau of Standards	Mar. 20, 1953	3,500	2,751	Complete	To test the suitability of "amplifilm," a synthetic material, as a substitute for mica in capacitors.
Do	Feb. 21, 1956	5,000	5,000	do	To develop a means of testing waviness (surface imperfections) in natural mica.
Bureau of Mines	Aug. 14, 1956	200,000	20,000	Active	To develop synthetic mica for use in electronic tubes and capacitors.
Department of the Army	Nov. 2, 1956	5,300	0	do	To perform research on reconstituting synthetic mica by electric deposition of finely divided mica particles.
Total, mica		213,800	27,751		

NICKEL					
Bureau of Mines	Sept. 4, 1952	$120,000	$35,155	Complete	Testing and assaying mineral specimens of manganese, tungsten, nickel, etc.
Singmaster & Breyer	Sept. 16, 1952	15,000	15,000	do	To make engineering studies on economic feasibility of producing nickel from Cuban lateritic ores.
International Nickel Co	Nov. 12, 1952	135,000	119,567	do	Engineering studies and appraisals re proposed nickel plant in Venezuela.
Battelle Memorial Institute	Dec. 17, 1952	66,300	66,300	do	Research to improve recovery of nickel and cobalt from lateritic ores.
Freeport Sulphur Co	Oct. 18, 1954	6,250,000	5,607,448	do	To pilot plant a sulfuric acid process for recovery of nickel and cobalt from Cuban lateritic ores.
Total, nickel		6,586,300	5,843,470		
RUTILE					
National Lead Co	Apr. 1, 1953	20,000	10,050	Terminated	To perform research on brookite as a substitute for rutile in welding-rod coatings and as a possible source of columbium.
SELENIUM					
Bureau of Mines	June 4, 1954	155,000	155,000	Active	To delineate, sample, and analyze the black shales and seleniferous tuffs of Wyoming, Idaho, and Utah; to perform hydrometallurgical and pyrometallurgical research on extraction of selenium from the foregoing possible primary ores.
Battelle Memorial Institute	Dec. 22, 1954	132,500	45,488	do	Research on cultivation of seleniferous vegetation and extraction of selenium therefrom.
Total, selenium		287,500	200,488		
TITANIUM					
Horizons Titanium Corp	July 1, 1954	564,300	519,830	Complete	To perform research and pilot-plant work on an electrolytic process for production of titanium metal.
Horizons, Inc	Apr. 29, 1955	134,740	130,193	do	Research and piloting a process for recovery of titanium sponge from titanium scrap.
National Research Corp	May 19, 1955	1,184,000	711,285	Active	Research and piloting a fused-salt process for production of metal from titanium tetrachloride.
Bureau of Mines	Sept. 30, 1955	546,000	328,100	do	To perform research on producing titaniferous slags from domestic ilmenite and to develop a process for producing titanium tetrachloride from such slags.
Total, titanium		2,429,040	1,689,408		
Grand total		13,015,859	11,058,619		
Contracts executed after Dec. 31, 1956:					
Manganese, Vitro Corporation of America.	Jan. 4, 1957	270,541	0	Active	To test and evaluate the high-arc process for recovering manganese from complex siliceous ores.
Mica, Synthetic Mica Corp	Feb. 21, 1957	151,189	0	do	To develop recrystallized and reconstituted synthetic mica sheet.
Titanium, National Bureau of Standards.	Mar. 29, 1957	45,000	0	do	To develop standard samples of titanium for use by industry and Government
Grand total including contracts executed after Dec. 31, 1956.		13,482,589	11,058,619		

EXHIBIT 11

General Services Administration activities under the Defense Production Act—Operation of Government-owned plants, cumulative through Dec. 31, 1956

Commodity and plant location	Production under contract		Sales to stockpile		Sales to industry		Operating loss [1]
	Quantity (short tons)	Cost including amortization	Quantity (short tons)	Amount	Quantity (short tons)	Amount	
Magnesium:							
Painesville, Ohio	29,120	$18,890,037	11,645	$6,870,661	17,475	$8,852,444	$3,166,932
Spokane, Wash	14,383	16,867,355	12,842	13,291,845	854	1,386,352	2,189,158
Manteca, Calif	17,362	18,781,691	13,104	13,599,347	4,258	2,083,456	3,098,888
Canaan, Conn., and Wingdale, N. Y	12,042	13,329,677	6,482	6,650,353	5,560	4,129,583	2,549,741
Not allocated to plants	0	159,237	0	0	0	0	159,237
Subtotal	72,907	68,027,997	44,073	40,412,206	28,147	16,451,835	11,163,956
Velasco, Tex	100,476	54,726,521	80,476	43,827,230	20,000	10,168,990	730,301
Total magnesium	173,383	122,754,518	124,549	84,239,436	48,147	26,620,825	11,894,257
Graphite: Chester Springs, Pa	533	177,545	0	0	0	0	177,545
Nickel: Nicaro, Cuba	68,518	68,943,077	20,545	18,677,554	43,515	50,313,877	[2] (3,606,261)
Total		191,875,140		102,916,990		76,934,702	8,465,541

[1] Does not include U. S. Treasuty interest, custodial and administrative expenses.
[2] Net operating profit.

General Services Administration activities under Defense Production Act, as amended—Activation and deactivation of Government-owned plants, cumulative through Dec. 31, 1956

Commodity and plant location	Reactivation and expansion costs			Termination and layaway costs [1]	Annual protection and maintenance costs [2]	Remarks
	Stockpile funds	Defense Production Act	Total			
Magnesium:						
Painsville, Ohio	$491,566	0	$491,566	$1,880,535	$124,000	Layaway completed.
Spokane, Wash	606,341	0	606,341	91,756	6,200	Do.
Manteca, Calif	869,125	0	869,125	1,248,826	76,100	Do.
Cannan, Conn	441,002	0	441,002	84,237	0	Do.
Wingdale, N. Y	632,248	0	632,248	0	63,500	Do.
Not allocated to plants.	0	0	0	171,330	0	
Subtotal	3,040,282	0	3,040,282	3,476,684	269,800	
Velasco, Tex	0	0	0	0	102,000	Plant leased to Dow Chemical Co.
Total magnesium	3,040,282	0	3,040,282	3,476,684	371,800	
Graphite: Chester Springs, Pa.	0	$415,446	415,446	19,400	8,300	The $19,400 of termination cost included production and maintenance costs during layaway operation.
Nickel: Nicaro, Cuba:						
Reactivation	10,901,529	712,455	11,613,984	0	0	Plant in operation.
Plant expansion	0	[3] 36,500,000	[3] 36,500,000	0	0	Do.
Mine expansion	0	3,700,000	3,700,000	0	0	
Total nickel	10,901,529	40,912,455	51,813,984	0	0	
Total	13,941,811	41,327,901	55,269,712	3,496,084	380,100	

[1] Defense Production Act funds.
[2] Protection and maintenance costs are financed under GSA, public buildings appropriations.
[3] Approximate estimates pending final audit and adjustment.

EXHIBIT 12

General Services Administration schedule of inventories

COMMODITIES IN STORAGE AND IN TRANSIT, UNDER DEFENSE PRODUCTION ACT OF 1950, AS AMENDED, AS OF DEC. 31, 1956

Commodity	Unit of measurement	Meeting stockpile specifications		Not meeting stockpile specifications		Total inventory	
		Quantity	Amount	Quantity	Amount	Quantity	Amount
Aluminum (pig)	Pound	185, 872	[1] $44, 180. 94			185, 872	$44, 180. 94
Asbestos	do			4, 698, 851	$2, 102, 575. 05	4, 698, 851	2, 102, 575. 05
Bauxite	Long dry ton	192, 063	2, 513, 578. 80			192, 063	2, 513, 578. 80
Beryllium	Short dry ton	223	[1] 127, 073. 40	438	173, 924. 82	661	300, 998. 22
Bismuth	Pound	22, 900	[1] 52, 361. 89			22, 900	52, 361. 89
Chrome	Long dry ton			401, 053	16, 525, 216. 27	401, 053	16, 525, 216. 27
Cobalt	Pound	38, 868	95, 056. 18			38, 868	95, 056. 18
Cobalt-nickel alloy	do			149, 273	377, 104. 29	149, 273	377, 104. 29
Total			95, 056. 18		377, 104. 29		472, 160. 47
Columbium-tantalum:							
Pentoxides	Pound	11, 712, 505	49, 571, 730. 36	603, 382	2, 040, 361. 56	12, 315, 887	51, 612, 091. 92
Potassium tantalum fluoride	do			86, 189	663, 532. 78	86, 189	663, 532. 78
Malayan tin slag	Long ton			18, 700	1, 507, 820. 36	18, 700	1, 507, 820. 36
Total			[1] 49, 571, 730. 36		4, 211, 714. 70		53, 783, 445. 06
Copper	Pound	45, 161, 904	13, 431, 716. 10			45, 161, 904	13, 431, 716. 10
Cryolite	Short ton			38, 851	10, 728, 244. 16	38, 851	10, 728, 244. 16
Fluorspar, acid	Short dry ton	206, 884	13, 775, 431. 11			206, 884	13, 775, 431. 11
Graphite	Pound			1, 066, 157	177, 545. 00	1, 066, 157	177, 545. 00
Lead	do	2, 718, 257	[1] 499, 871. 51			2, 718, 257	499, 871. 51
Manganese, metallurgical:							
Contained units	Long ton unit	11, 768, 508	27, 802, 278. 15	10, 894, 305	10, 660, 928. 32	22, 662, 813	38, 463, 206. 47
Recoverable units	do	1, 277, 248	2, 932, 054. 58	14, 307, 983	24, 581, 688. 01	15, 585, 231	27, 513, 722. 59
Total			[1] 30, 734, 332. 73		35, 242, 596. 33		65, 976, 929. 06
Manganese:							
Electrolytic	Pound	10, 537, 000	[1] 2, 951, 428. 20			10, 537, 000	2, 951, 428. 20
Synthetic dioxide	Long dry ton	580	406, 674. 13			580	406, 674. 13
Mercury	Flask	5	[1] 1, 125. 00			5	1, 125. 00
Mica, foreign and domestic:							
Graded	Pound	237, 953	2, 018, 879. 89	1, 309, 476	8, 563, 143. 69	1, 547, 429	10, 582, 023. 58
Punch	do			183, 015	18, 301. 33	183, 015	18, 301. 33
Scrap	do			207, 165	2, 070. 62	207, 165	2, 070. 62
Total			2, 018, 879. 89		8, 583, 515. 64		10, 602, 395. 53

EXHIBIT 12—Continued

General Services Administration schedule of inventories—Continued

Commodity	Unit of measurement	Meeting stockpile specifications		Not meeting stockpile specifications		Total inventory	
		Quantity	Amount	Quantity	Amount	Quantity	Amount
Nickel	Pound	4,145,260	$4,869,436.86			4,145,260	$4,869,436.86
By product: Palladium	Troy ounce	7,884	177,312.31			7,884	177,312.31
Total			5,046,749.17				5,046,749.17
Tin	Pound			1,203,229	$1,040,397.15	1,203,229	1,040,397.15
Titanium	Short ton			9,316	82,458,505.23	9,316	82,458,505.23
Tungsten	Pound-weight	63,549,377	[1] 258,001,822.43	16,376,422	63,064,328.86	79,925,799	321,066,151.29
Zinc	Pound	6,749,885	[1] 1,158,091.28			6,749,885	1,158,091.28
Total in storage and in transit			380,430,103.12		224,685,667.50		605,115,770.62

INVENTORIES IN GOVERNMENT-OWNED INDUSTRIAL PLANTS, AS OF NOV. 30, 1956, MEETING STOCKPILE SPECIFICATIONS

	Unit of measurement	Total finished products		Total amount
		Quantity	Amount	
Nickel:				
Nickel ingots	Pound	2,031,960	$1,147,734.64	
Powdered nickel oxide	do	772,854	359,136.88	
Sintered nickel oxide	do	3,222,237	1,504,973.15	
Total nickel		6,027,051	3,011,844.67	$3,011,844.67
Work in process:				
Nickel			1,287,906.45	
Mica			114,581.45	
Total			1,402,487.90	1,402,487.90
Grand total				609,530,103.19

[1] Commodities for which minimum stockpile objectives have been reached.

EXHIBIT 13

General Services Administration statement of income and expenses, under Defense Production Act of 1950, as amended Dec. 29, 1950, through Dec. 31, 1956

	Rubber	Minerals and metals	Machine tools	Total
Sales	$889,850,227.69	$832,311,023.72		$1,722,161,251.41
Cost of commodities sold				
Inventory at beginning of period	0	0		0
Purchases, manufacturing and direct expense	867,476,692.10	1,514,517,906.46		2,381,994,598.56
Less claims for shortages and quality allowance	1,338,720.72	0		1,338,720.72
Available for sale	866,137,971.38	1,514,517,906.46		2,380,655,877.84
Less inventory at end of period	0	609,530,103.21		609,530,103.21
Cost of commodities sold	866,137,971.38	904,987,803.25		1,771,125,774.63
Gross profit or (loss)	23,712,256.31	(72,676,779.53)		(48,964,523.22)
Other income:				
Interest	2,225.48	12,715,669.60	$1,424,848.84	14,142,743.92
Rental		59,365.92	14,255,965.40	14,315,331.32
Other	25.00	4,769,116.44	18,069.05	4,787,210.49
Total other income	2,250.48	17,544,151.96	$15,698,883.29	33,245,285.73
Total income	23,714,506.79	(55,132,627.57)	15,698,883.29	(15,719,237.49)
Expenses:				
Accessorial expense		7,929,927.95		7,929,927.95
Production guaranties		27,290,343.30		27,290,343.30
Research and development		5,578,997.30		5,578,997.30
Interest expense, other	28,123.88			28,123.88
Losses on advances		124,329.84	69,697.00	194,026.84
Shutdown expense, Government-owned plants		2,626,684.04		2,626,684.04
Contract termination		873,814.35	3,856,749.26	4,730,563.61
Depreciation		78,469.99	9,574,433.56	9,652,903.55
Losses on accounts and notes receivable	98,605.19	49,207.95	15,426.33	163,239.47
Losses on disposal of assets		1,396,978.51	485,482.50	1,882,461.01
Lubricating graphite development		173,858.06		173,858.06
Program expense, other	9,721,416.78	235,256.15	591,539.97	10,548,212.90
Total expense	9,848,145.85	46,357,867.44	14,593,328.62	70,799,341.91
Net operating profit or (loss) by program	13,866,360.94	(101,490,495.01)	1,105,554.67	(86,518,579.40)
Other undistributed expenses:				
Administrative expense				16,864,172.01
Annual leave expense				111,754.02
Custodian expense				2,788,301.98
Interest expense, U. S. Treasury				57,023,398.30
Nonoperating (income) or expense				(6,317.88)
Total other expenses				76,781,308.43
Net profit or (loss)				(163,299,887.83)

EXHIBIT 14

General Services Administration—Status of national stockpile as of Dec. 31, 1956, based on market prices as of Dec. 31, 1956

[In millions of dollars]

I. Value of objectives:	
Minimum	6, 667. 9
Long-term	4, 378. 3
Total	11, 046. 2
II. Procurement for objectives:	
(*a*) Inventory:	
Minimum	5, 177. 4
Long-term	1, 312. 1
Total	6, 489. 5
(*b*) On order	
Minimum	219. 8
Long-term	130. 3
Total	350. 1
(*c*) Total procured:	
Minimum	5, 397. 2
Long-term	1, 442. 4
Total	6, 839. 6
III. Balance to be procured:	
Minimum	1, 270. 7
Long-term	2, 935. 9
Total	4, 206. 6

Status of stockpile procurement, by number of materials, as of Dec. 31, 1956

Percent procurement completed	Number of materials	
	Minimum objective [1]	Long-term objective [2]
100	46	15
90 to 99	3	3
75 to 89	6	9
50 to 74	9	12
25 to 49	6	9
Under 25	5	8
Total	75	56

[1] 75 materials categories on group I strategic list on Dec. 31, 1956, 3 of which have no minimum objective, and 3 of which are further split into subcategories each having a separate minimum objective. (Cotton has since been dropped.)

[2] 53 materials categories in group I strategic list, have long-term objectives, 3 of them having 2 long-term objectives each.

EXHIBIT 15

Deleted as classified information.

EXHIBIT 16

General Services Administration diversion of materials to industry, cumulative through Dec. 31, 1956

I. STOCKPILE DIVERSION PROGRAM [1]

	Purchases by Defense Production Act from stockpile		Sales by Defense Production Act to industry		Profit or (loss)
	Quantity	Cost	Quantity	Value	
	Short tons		*Short tons*		
Copper	5,365	$2,888,855	5,365	$2,913,575	$24,720
Fluorspar	6,883	418,387	6,883	430,789	12,402
Lead	7,005	2,717,441	7,005	2,672,368	(45,073)
Zinc	16,020	5,742,979	16,020	6,150,839	407,860
Total, stockpile diversion	----------	11,767,662	----------	12,167,571	399,909

II. DEFENSE PRODUCTION ACT DIVERSION PROGRAM

	Diversions [2]	Postponed deliveries [3]	Total
	Short tons	*Short tons*	*Short tons*
Copper	41,058	6,926	47,984
Molybdenum	2,261	1,500	3,761
Nickel	35,697	----------	35,697

[1] Contracts were originally entered into as National Stockpile Procurement contracts but were transferred to Defense Production Act prior to delivery in order to effect diversion of deliveries to industry.

[2] Represents quantities which contractors were authorized to sell directly to industry with corresponding reduction in contract quantities, and quantities purchased or produced by Government but resold to industry.

[3] Represents quantities which contractors were authorized to sell to industry direct with corresponding postponement of Government deliveries.

EXHIBIT 17

General Services Administration Defense Materials Service—Report of purchased under domestic purchase regulations, Dec. 31, 1956 (pursuant to sec. 4, Public Law 206, 83d Cong.)

Regulation	Original termination date	Extended termination dates	unit	Program limitation (quantity)	Purchases[1] during quarter		Cumulative purchases[1] through end of quarter	
					Quantity	Amount	Quantity	Amount
Asbestos	Oct. 1, 1957		Short tons, crude No. 1 and/or crude No. 2 asbestos.	1,500	0	0	1,499	$1,762,505.00
			Short tons, crude No. 3		0	0	850	340,070.05
Beryl	June 30, 1957	June 30, 1962	Short dry ton, beryl ore	4,500	196	$103,892.36	1,203	659,592.53
Chrome	do	June 30, 1959	Long dry tons, chrome ore and/or chrome concentrates.	200,000	11,169	1,147,588.63	137,700	13,517,915.93
Columbium-tantalum	Dec. 31, 1958		Pound, contained combined pentoxide	15,000,000	0	0	15,600,461	59,859,523.90
Manganese:								
Butte-Phillipsburg	June 30, 1958		Long ton unit, recoverable manganese	6,000,000	327,486	488,364.56	3,261,657	4,734,155.01
Deming	do		do	6,000,000	0	0	6,215,258	12,036,388.37
Wenden	do		do	6,000,000	0	0	6,108,316	10,743,179.21
Domestic small producers	do	Jan. 1, 1961	Long ton unit, contained manganese	28,000,000	1,495,258	3,799,950.77	10,538,173	26,005,823.76
Mercury	Dec. 31, 1957		Flask, prime virgin mercury	125,000	0	0	5	1,125.00
Mica	June 30, 1957	June 30, 1962	Short ton, hand-cobbed mica or equivalent	25,000	708	711,958.38	10,124	10,972,440.48
Tungsten	July 1, 1958		Short ton unit, tungsten trioxide	3,000,000	[2] (18)	(1,017.58)	2,996,451	189,223,046.61

[1] Quantities represent deliveries.

[2] Inventory adjustment.

Exhibit 18

General Services Administration Defense Materials Service—Report of purchases under domestic purchase regulation (operating on delegation of authority by Department of the Interior under Public Law 733), Dec. 31, 1956

Material	Termination date of program	Unit of measure	Total limitation	Interim limitation	Purchases during quarter		Cumulative purchases through end of quarter	
					Quantity	Amount	Quantity	Amount
Asbestos	Dec. 31, 1958	Short ton, crude No. 1 and No. 2	2,000	456	365	$439,669	365	$439,669
		Short ton, crude No. 3	2,000	456	225	91,739	225	91,739
Columbium-tantalum	do	Pound, contained combined pentoxide	250,000	57,176	184	854	[1] 184	854
Fluorspar	do	Short ton, acid grade	250,000	57,173	0	0	0	0
Tungsten	do	Short ton unit, tungsten trioxide	1,250,000	285,872	271,315	14,928,946	271,315	14,928,946
Total						15,461,208		15,461,208

[1] Short dry ton.

EXHIBIT 19

General Services Administration summary statement of assistance to contractors, by type and program, cumulative through Dec. 31, 1956

Material program	Tax amortization		Loan guaranty		Direct Government loans certified	Total advances to contractors	Procurement transactions					
	Total estimated cost of facilities	Normal percent allowed	Maximum amount authorized	Average percent guaranteed			Subsidy payments	Industrial machinery	Research contracts	Processed at Government plant	Purchase contracts	Total gross transactions
	Thousands		*Thousands*		*Thousands*	*Thousands*	*Thousands*	*Thousands*	*Thousands*	*Thousands*	*Thousands*	*Thousands*
Alumina	$132,491	80										
Aluminum	745,119	80	$120,750	79		$15,735	$19,274				$1,535,805	$1,555,079
Antimony	194	60										
Arsenic	465	65										
Asbestos											2,147	2,147
Barite	2,271	30										
Bauxite	30,041	80									25,540	25,540
Beryllium					$45	34			$150		2,721	2,871
Bismuth											1,013	1,013
Borates	1,966	25										
Bromine	5,061	50										
Cadmium	276	60										
Chrome			1,500	70		3,445					40,751	40,751
Cobalt											114,370	114,370
Columbium-tantalum	3,685	80	2,850	90		155			625		97,889	98,514
Copper	228,525	75			121,900	534	1,905				674,086	675,991
Cryolite	6,659	75									15,541	15,541
Diatomite	6,355	35										
Dolomite			2,625	80							20,000	20,000
Fluorspar						1,280					15,839	15,839
Fluorspar and fluorides	4,282	65										
Garnet	299	60										
Germanium	110	70										
Graphite										$613	286	899
Gypsum	158	60										
Hospital equipment												
Iron, including taconite	1,244,300	65	850	85								
Iron ore					57						0	0
Lead											20,817	20,817
Lead and zinc	63,314	60										
Lime, limestone, and dolomite	48,697	60										
Lime rock					92							
M-day machine tool pool order								0				0
Machine tool (elephant)								$4,800				4,800

Machine tools (pool)			31,212	84		53,782		1,285,744				1,285,744
Marine turbine and gear								0				0
Magnesium	7,024	50	386	74						129,271	209	129,480
Manganese	18,756	75	4,750	92	15,000	9,117			2,704		466,147	468,851
Mercury	1,091	80									45,000	45,000
Mica									214		48,027	48,241
Mica, natural sheet	1,254	45										
Mica, synthetic sheet	208	90										
Mineral development											382	382
Molybdenum	22,994	75			540						154,192	154,192
Mullite	47	65										
Nickel	90,884	82				49,533			6,586	120,757	578,166	705,509
Pallets (for storage of quebracho tanning extract)			60	90								
Phosphate rock	11,621	50										
Quartz crystals	632	50										
Rare earths	4,219	75									0	0
Refractory clay	1,213											
Refractory magnesias	19,691	65										
Rubber											882,704	882,704
Rutile and monazite	2,182	65							10		1	11
Salt	451	50										
Sand	805	30										
Scrap (nonferrous)											533	533
Selenium	101	70							288		0	288
Soda ash	16,200	30										
Sulfur	22,342	70										
Tin						2,841					179,471	179,471
Tin-tungsten			374	100								
Titanium	117,779	90				51,718			2,429		212,667	215,096
Tungsten	5,960	65			124	88					370,056	370,056
Zinc					1,080	370	18				28,930	28,948
Administrative expense											14,596	14,596
Custodial											3,389	3,389
U. S. Treasury expense											52,797	52,797
Grand total	2,869,722		165,357		138,838	188,632	21,197	1,290,544	13,006	250,641	5,604,072	7,179,460

GENERAL NOTE.—Amounts appearing in columns on both sides of the double line are integral parts of total procurement operations and therefore should not be added together. For example: A procurement contract for new facilities could provide for an advance of funds for working capital against future production under the contract without increasing the total amount of the procurement contract.

Senator ROBERTSON. The witness will be permitted to summarize the high points as he may see them. Then members of the committee will undoubtedly want to ask him some questions.

Mr. FLOETE. Mr. Chairman and gentlemen of the committee, the prepared statement calls attention to the various acts which Congress has passed over some period of years, notably, the Defense Production Act of 1950, which is the one immediately in question. There is a statement as to its general working methods and, following that, is a discussion of the Strategic and Critical Materials Stock Piling Act, Public Law 520 of the 79th Congress. That, of course, is the basic Stockpiling Act and the others revolve around it.

Thirdly, the Agricultural Trade Development and Assistance Act of 1954, Public Law 480, 83d Congress, which created the supplemental stockpile, and which was supplemented by the Agricultural Act of 1956, which authorized the transfer of strategic and critical materials acquired by the Agriculture Department.

Fourthly, the Domestic Materials Program Extension Act of 1953, which merely extended, for 2 years, an already existing program; and

Fifth, the Domestic Tungsten, Asbestos, Fluorspar, and Columbium-Tantalum Production and Purchase Act of 1956, authorized certain appropriations to the Department of the Interior, and these were transferred to General Services Administration for implementation.

Then there are two other general acts that affect this whole problem. One is the Abaca Production Act of 1950, and secondly, an act relating to the tin smelting industry.

As you know, the control of this entire subject is under the Office of Defense Mobilization. We act as an agent to implement their policy directives. We work in a harmonious fashion with them. We keep them advised of conditions which we think might be important to them in making their policy decisions, but, in general, we act only upon direction received from the Office of Defense Mobilization.

ODM has certain methods of operating, and of course, they cooperate quite closely with the Commerce Department and the Interior Department. The Defense Production Act itself was enacted to facilitate the production of goods and services necessary for the national defense and national security, and secondly, to reduce the time required for mobilization in the event of attack on the United States.

I think it is unnecessary for me to dwell upon the different sections of that law.

The borrowing authority to which the chairman referred is, as stated, $2.1 billion and as stated, $1,520 million of this has been allotted to GSA. We have complete details in the tables attached to my statement, which we can refer to as desired.

The Bureau of the Budget exercises a general control through their apportionment process and follows certain criteria which are set forth on page 8 of that statement. Of the $2,100 million total borrowing authority under the Act, $1,927 million had been allocated by ODM as of December 31 and, of the total amount allocated, $1,520 million is assigned to GSA. Of that amount, $1,492 million has been certified and $1,482 million apportioned. Of the amount apportioned, a total of $1,043,700,000 had been borrowed. There have been repayments of $125 million. So there was presently outstanding, $918,700,000 in notes payable to the Treasury.

These of course, do not reflect the total transactions that have been engaged in.

A summary of the borrowing authority is attached as exhibit 1. We employ various tools in executing our responsibility, including rapid tax amortization certificates; commitments to purchase; firm procurement contracts; guaranteed loans; direct certification of loans; maintaining production at high-cost plants by means of subsidies; operating Government-owned plants for the production of minerals and metals; advancing funds for exploration, development, and mining of strategic minerals and metals.

One of the notable things developed under this act, of course, was the expansion of aluminum productive capacity. I think we have been very successful in accomplishing the objective for which the expansion goal was established.

Another is titanium, which is a rare material that had to be developed and probably could not have been developed except with Government assistance.

The expansion of the nickel industry is another notable example.

Gentlemen, I don't think it is necessary to read all of these different methods. This is a very brief summary of how we act. We are prepared to answer any questions. I have with me Mr. Medley and Mr. Pike. Mr. Medley is the comptroller, and can give specific information on financial matters. Mr. Henry Pike is the Associate General Counsel of GSA, and Mr. Sweeney is the General Counsel.

There are many legal problems involved. In addition, for the technical aspects of particular minerals and metals, Mr. Weaver, the Commissioner of Defense Material Services, is here.

We have a list of the major Defense Production Act contracts now in existence and whatever information you desire as to the particular subjects, we will be happy to try to answer.

I might say we are now in the process of taking a physical inventory of all of the defense materials. This had not been done before. We started last summer. Originally, we thought it might take 5 years to complete it. We now believe it can be done in 3. The cost is, of course, large, because the inventory exceeds $7 billion. The property is stored in some 224 warehouses at the present time.

The inventory is well underway. We think it can be, as I said, concluded in 3 years and will cost us approximately $15 million. However, I think it is money well spent because, in addition to checking the inventory and being sure we have it, at the same time we are doing whatever repackaging or reprocessing is necessary, and that is necessary in many cases because of the containers deteriorating and the contents suffering accordingly.

We have developed a very definite method of taking this inventory and it is progressing satisfactorily.

I do not know whether, at this time, you wish to take up Nicaro. That is the last subject in my formal statement, but I can defer that, if you wish, to some other point.

Senator ROBERTSON. Well, I am going to ask you just three questions on the losses that we estimate, and then I am going to recognize one by one, alternating right to left, the members of this committee and then I want to ask some questions about this tax amortization program, which is of great concern in some quarters, especially on legislation now pending in the tax committees.

You heard me read the statement prepared by the staff that when you have taken delivery of everything contracted to be purchased, you will have suffered an overall loss of $852 million, from 1950 through December 1956, including delivery after that period, of things previously bought. Is that substantially correct?

Mr. FLOETE. Mr. Medley is the Comptroller.

Mr. MEDLEY. Mr. Chairman, as of December 31, 1956, on the materials of which we had taken delivery and had disposed of, we had suffered a loss of $163,299,887, as shown on exhibit No. 13 attached to Mr. Floete's statement. I presume that the committee is taking into account the fact that they have added together the losses suffered to date, plus the current market value of materials in inventory on that date, so that we have suffered a loss of $163 million plus, materials and inventory, as of December 31, which is shown on exhibit No. 4, of Mr. Floete's statement. The book value or the cost of those materials is $609,530,000. The market value of those same materials at December 31 prices, is $295,410,000, or a difference, roughly, of $315 million. That, added to the loss actually suffered would, if you want to add those figures together, equal, roughly, $478 million accord ing to my mental calculations.

Senator ROBERTSON. We have to treat that as a loss, if we are selling you out?

Mr. MEDLEY. As of this time; yes, sir.

Senator ROBERTSON. You cannot point to how anybody in the commercial world is going to bail you out of that loss; can you?

Mr. MEDLEY. Not on the basis of present prices.

Senator CAPEHART. Where is the other $300 million?

Mr. MEDLEY. I don't have that quite figured out yet.

Senator ROBERTSON. He has got to meet the value of materials in DPA inventory not meeting stockpile specifications.

Senator CAPEHART. He gives a figure of what? What is the difference?

Senator ROBERTSON. He shows $224,685,000 there, on another item.

Mr. MEDLEY. On exhibit 12, we show what we have in the inventory. Of the $609 million of inventory as of December 31, there is $224,685,000 worth of materials which do not meet stockpile specifications.

Senator ROBERTSON. Well, would you explain to us how you happened to buy materials, take delivery of materials that did not meet the specifications?

Mr. MEDLEY. Well, I can explain that generally, Mr. Chairman. Some of these programs were set up—for example, the domestic buying program, which was originally established under the Defense Production Act and later extended by Public Law 206, 83d Congress. This act, which extended the dates of those buying programs Mr. Floete just mentioned in his statement, specified that we purchase certain materials such as tungsten, and they are included in the inventories. As an example, $63 million of tungsten, which was acquired under a

buying program extended and authorized by that law, does not meet stockpile specifications.

Senator ROBERTSON. Is it fair to treat that as a loss or not?

Mr. MEDLEY. Well, I would not think so, Mr. Chairman, because there are certain uses—commercial uses—for materials which sometimes do not meet stockpile specifications. For example, titanium is one which they are using commercially, but the inventory of $82 million in the Defense Production Act at the moment does not meet stockpile specifications. That metal, however, can be used commercially.

Senator ROBERTSON. Now you have given us a figure as of December 31, 1956, of acquisition costs of $609,531,000 and the present market value of $295,410,369.

You have not included, though, deliveries that will be made during 1957 and maybe 1958 of material that you have bought prior to the end of December 1956. How much are you going to lose on those?

Mr. MEDLEY. Well, that is a speculative question, Mr. Chairman, in relation to what the future economy might be.

Senator ROBERTSON. It does not make you feel that showing is going to be any better than what it has been in the past, does it?

Mr. MEDLEY. I am not an economist, but I would not think so.

Senator ROBERTSON. Well, in any event, gentlemen of the committee, our staff took all those things into consideration, and Mr. Warren of our staff may best make his statement as to what he did take into consideration when he prepared for us the figure taken into consideration, on present market values; the total losses, which are going to amount to $852 million.

Senator CAPEHART. I would like a breakdown of that.

Senator ROBERTSON. I will ask our staff to put that into the record.

(The following table was extracted from page 11 of the Report on Borrowing Authority to the Congress from the Office of Defense Mobilization, dated December 31, 1956.)

Status of probable net costs by agency and program, as of Dec. 31, 1956

[Thousands of dollars]

Agency, program and type of assistance	Probable ultimate net cost of gross transactions					
	Total certified	Consummated				Balance not consummated
		Total		Completed	Outstanding	
		Amount	Percent			
Total	1,042,304	851,497	100.00	604,574	246,923	190,807
Agency:						
General Services Administration	944,399	754,493	88.61	518,653	235,840	189,906
Department of the Treasury	1,600	699	.08	699	0	901
Department of Agriculture	65,802	65,802	7.73	60,695	5,107	0
Export-Import Bank	0	0	.00	0	0	0
Department of Interior	30,503	30,503	3.58	24,527	5,976	0
Program:						
Aircraft and aircraft parts	0	0	.00	0	0	0
Aluminum	20,014	17,734	2.08	17,734	0	2,280
American-Egyptian cotton	9,608	9,608	1.13	8,056	1,552	0
Asbestos, chrysotile	642	752	.09	752	0	(110)
Bauxite	0	0	.00	0	0	0
Castor beans	8,385	8,385	.98	5,455	2,930	0
Chrome	35,601	21,700	2.55	11,004	10,696	13,901
Coal and coke	0	0	.00	0	0	0
Cobalt	1,313	6,593	.77	339	6,254	(5,280)
Columbium-tantalum	50,386	52,935	6.22	46,783	6,152	(2,549)
Copper	1,672	817	.10	(43)	860	855
Copper and cobalt	0	0	.00	0	0	0
Cryolite	4,467	1,786	.21	1,783	3	2,681
Dolomite	0	0	.00	0	0	0
Electrical, electronics and X-ray, etc.	0	0	.00	0	0	0
Fluorspar	4,527	4,148	.49	3,731	417	379
Graphite	905	903	.11	903	0	2
Kenaf seed and fiber 1951–52	1,388	1,388	.16	1,388	0	0
Lead	1,698	1,830	.22	137	1,693	(132)
Lead-zinc	7,949	7,949	.93	6,438	1,511	0
Lead-zinc-copper	3,386	3,386	.40	2,767	619	0
Linseed oil	43,686	43,686	5.13	43,686	0	0
Machinery and components	0	0	.00	0	0	0
Machine tools (pool orders and lease)	30,700	13,900	1.63	13,800	100	16,800
Machine tools (elephant)	12,000	1,300	.15	1,279	21	10,700
Machine tools (marine turbine and gears)	50,000	0	.00	0	0	50,000
M-day machine tool pool orders	3,000	0	.00	0	0	3,000
Magnesium	18,458	18,390	2.16	18,169	221	68
Manganese	125,073	111,129	13.05	69,407	41,722	13,944
Mercury	1,687	1,687	.20	1,155	532	0
Mica	38,039	36,311	4.26	13,895	22,416	1,728
Mineral development	360	319	.04	319	0	41
Molybdenum	22,268	4,256	.50	1,592	2,664	18,012
Nickel	160,503	125,581	14.75	49,372	76,209	34,922
Petroleum and petroleum products	0	0	.00	0	0	0
Rare earths	3,736	236	.03	215	21	3,500
Rehabilitation loans	0	0	.00	0	0	0
Rubber	0	(7,149)	(.84)	(7,149)	0	7,149
Steel	0	0	.00	0	0	0
Tin	7,783	5,048	.59	5,041	7	2,735
Titanium	128,700	104,664	12.29	43,895	60,769	24,036
Transportation	0	0	.00	0	0	0
Tungsten	138,856	162,635	19.10	156,867	5,768	(23,779)
Uranium	4,798	4,798	.56	3,172	1,626	0
Zinc	9,615	7,112	.84	7,112	0	2,503
Other expansion program	4,046	4,413	.52	3,311	1,102	(367)
Operating, administrative and interest expenses	87,055	73,267	8.60	72,209	1,058	13,788
Type of assistance:						
Purchase		692,858	81.37	454,927	237,931	
Government-owned plant transactions		19,284	2.27	19,063	221	
Loans		699	.08	699	0	
Exploration grants		30,503	3.58	24,527	5,976	
Industrial installations		6,700	.79	6,579	121	
Other		101,453	11.91	98,779	2,674	

Mr. WARREN. Mr. Medley, I ask you to refer to your report on page 11 and explain that page. I think that will cover it.

Mr. MEDLEY. On page 11, Mr. Chairman, of the Report on Borrowing Authority, as of December 31, submitted to the Congress pursuant to section 304 (b) of the act, on that page, there is indicated that a total probable ultimate net cost would be $851,497,000, of which $754,493,000 would apply to the General Services Administration and of course, Mr. Chairman, on exhibit 1 of Mr. Floete's statement, exhibit 1 of the statement filed with the committee, which shows that of the total programs certified to the GSA, we estimate that the probable ultimate net cost on all programs once they have run their life and we have procured the commodities that we have contracted for, will be $754,493,000. That is our current estimate.

Senator CAPEHART. This page you are talking about—page 11—where does it show the loss?

Mr. MEDLEY. Well, you notice the caption at the top, Senator.

Senator CAPEHART. "Status of Probable Ultimate Net Cost Per Agency Per Program as of December 31, 1956."

Mr. MEDLEY. That means the probable ultimate net cost to the Government.

Senator CAPEHART. In the first column?

Mr. MEDLEY. No. That is the total certified, but the total of the——

Senator CAPEHART. The second column?

Mr. MEDLEY. Yes.

Senator CAPEHART. Where does it show the losses on this page?

Mr. MEDLEY. That is what we expect the ultimate loss to be in total.

Senator CAPEHART. $754 million?

Mr. MEDLEY. Yes, sir.

Senator CAPEHART. That is not correct, is it?

Senator ROBERTSON. That is GSA, if I might say.

Senator CAPEHART. In other words, GSA expects their loss to be $754 million?

Mr. MEDLEY. That is right, sir.

Senator CAPEHART. Out of a total of $944 million?

Mr. MEDLEY. That is correct, sir.

Senator CAPEHART. No. No. No.

Mr. MEDLEY. Pardon me. I misinformed you.

Senator CAPEHART. Probable ultimate net cost of transaction. The net cost is $754 million, is it not?

Mr. MEDLEY. That is right. That is out of a total program of, you notice on the left of that page 10, of $7,179,460,000.

Senator ROBERTSON. The chairman wishes to point out on page 11 of the report on borrowing authority, the second column under the amount consummated, there is an estimated total loss of $851,497,000 made up as follows: $754,493,000, General Services; $699,000, Treasury; $65,802,000, Department of Agriculture; nothing for the Export-Import Bank; $30,503,000 for the Department of Interior. Is that not correct?

Mr. MEDLEY. Yes, sir.

Senator ROBERTSON. You say it is?

Mr. MEDLEY. Yes, sir.

Senator CAPEHART. You mean those are the losses?

Mr. MEDLEY. If I could say it this way, Senator. The act expires June 30, 1965. These are currently the estimates of the total losses that will occur during the life of the law for the programs which have been consummated to date.

Senator CAPEHART. Why did you not say so at the top of the caption? Why do you state, "Status of probable ultimate net costs per agency and programs"? Why could you not say, "Probable ultimate net loss on gross transactions?

Mr. MEDLEY. Well, that is the language used in the law, Senator, so that is why it is used here.

Senator ROBERTSON. That is what you call protocol, Senator.

Senator CAPEHART. Net cost. I don't know where anybody got the word "net cost" to mean losses. Why didn't you say what you meant? Why did you not say "The Status of Probable Losses to the United States Government" at the top of this program?

Mr. MEDLEY. We could do that in the future.

Senator CAPEHART. You certainly have to do it, if it is to mean anything to me.

Mr. MEDLEY. The law directs that once each quarter we will submit to the Congress, currently, an estimate of the probable ultimate net cost to the Government, so that we used, in our caption, the same language as is used in the law.

Senator CAPEHART. What is the gross cost to the Government?

Mr. MEDLEY. Well, there would be the gross transactions which are stated, again, on page 10. Just to the left there, Senator. In other words, the gross transactions involved in that estimated "loss," if you please, sir, is $7,179,460,000.

Senator CAPEHART. Out of which you are going to lose $754 million, is that correct?

Mr. MEDLEY. Yes, sir.

Mr. FLOETE. About 10 percent.

Senator CAPEHART. In other words, when you get all through here, the net cost to the Government is going to be $754 million but it is not a net loss?

Mr. MEDLEY. Oh, yes.

Senator CAPEHART. It is?

Mr. MEDLEY. Yes.

Mr. PIKE. Mr. Medley is referring to that part of section 304 (b) of the Defense Production Act of 1950 which says the President shall submit a report to the Congress not less often than each quarter setting forth the gross amount of each such transaction entered into by any agency of the United States Government under this authority, and the basis for determining the probable ultimate net cost to the United States thereunder.

That is why the report uses the term.

Senator CAPEHART. Let's change the law right now and talk about losses because that is certainly confusing. It is certainly confusing.

Senator ROBERTSON. The former chairman, the Senator from Indiana, is still being recognized.

Senator CAPEHART. Are you through with the losses?

Senator ROBERTSON. I am through with that particular phase of it, yes. I just wanted to be sure my statement was not in error, and I mentioned the overall losses which he said I had correctly stated.

Senator CAPEHART. That would mean you are 100 percent right.

Senator ROBERTSON. More or less. I was within $500,000.

Senator CAPEHART. Well, that is about a 10 percent loss; $754 million on 7½ billion is about a 10 percent loss. That comes about primarily through what?

Mr. FLOETE. It comes about, of course, because it was necessary to give certain inducements to industry to get them to go into this. So various devices were adopted. One of them was to guarantee a price in excess of the market price.

Senator CAPEHART. To encourage them to produce?

Mr. FLOETE. That is right. Or to encourage them to put up new construction. I understand it was authorized by Congress and it was a normal procedure. Then we had other losses by continuing to buy certain materials that, actually, were excessive in cost, and we also had to buy some that did not meet stockpile specifications. So I think that explains most of those very large losses.

Senator CAPEHART. Does this include the shrinkage in the market price?

Mr. FLOETE. The DPA inventory, as of December 31, was $609 million. The value at December 31 prices is $295 million.

Senator CAPEHART. That is reflected this $754 million.

Senator ROBERTSON. You did not consider that $754 million as much of a loss?

Mr. FLOETE. I said it was a very large loss.

Senator ROBERTSON. I see.

Senator CAPEHART. It comes about through shrinkage in the market price of inventory; through some spoilage of goods or materials?

Mr. FLOETE. Yes.

Senator CAPEHART. Or failure to meet the specifications, then, through purchases of high-priced minerals that you contracted for, on the basis that you needed them; is that it?

Mr. FLOETE. Yes. That is right; and paid for them and revalued at the present market, which is lower in most cases.

Senator CAPEHART. How much of this $754 million is in shrinkage in market value?

Mr. FLOETE. The $315 million is in the present inventory. That is obvious. That is all shrinkage in market values.

Senator ROBERTSON. Due to the drop in prices, or due to the drop in quality of goods, or both?

Mr. FLOETE. Both.

Senator CAPEHART. Market price?

Mr. FLOETE. Yes.

We could give some additional statement that would, perhaps, clarify it.

Senator CAPEHART. How much authorization do you have left? Did I not see here a minute ago, about $242 million?

Mr. MEDLEY. The ODM has a reserve in the $2.1 billion unallocated, of $172,575,000; and GSA, of the amount allocated to us, we have a balance of $27,787,000.

Senator CAPEHART. Those two figures would revert back to the Treasury; is that correct? They would not be spent.

Mr. MEDLEY. They would not be borrowed. Yes, sir.

Senator CAPEHART. If we quit right now?

Mr. MEDLEY. Yes.

Senator CAPEHART. You think the two hundred and some million dollars is sufficient to carry you through the next year? Of course, that is for ODM to decide, not for you?

Mr. MEDLEY. Yes, sir.

Senator CAPEHART. You get in this act only because ODM designated you as one of the Government agencies to help them carry out the law; isn't that correct?

Mr. FLOETE. Yes. We conducted specific programs which they certified.

Senator CAPEHART. Well, a member of the staff here asked before about the aluminum contract. Is this going to require a lot of additional money?

Mr. FLOETE. Yes, sir. There have been substantial "puts" in the last 2½ months. That, I believe, is the first time we have had any puts of any substantial nature since the program was first inaugurated. The total amount of it, up to date, would require, at the present market prices of 25 cents a pound, approximately $106 million. That has been "put" to us under those old contracts.

Senator CAPEHART. You have to pay out of this sum of $200 million that you have. Do you have to take the aluminum? Do you need it?

Mr. FLOETE. There is still room for it.

Senator CAPEHART. Whether you do or whether you don't, you have to take it under the contractual relations?

Mr. FLOETE. That is right.

Senator CAPEHART. Is that the end of it, or is there more, beyond that?

Mr. FLOETE. No. There is more beyond that.

Senator CAPEHART. Is that the only "put" you have at the moment, or do you have a lot of them?

Mr. FLOETE. No. Some in copper recently, also.

Senator CAPEHART. Do you have any problems in connection with this, at the moment? Do you need any additional authorization? Do you need any additional money? Is there any change in the law that you would like to see made or like to see the whole thing repealed? Do you have any thoughts or suggestions or ideas on improving the situation or eliminating part of it?

Mr. FLOETE. There is one suggestion that we might make. The numerous laws under which we operate are difficult to administer; they are also expensive to administer. It has occurred to us that possibly the whole picture could be looked into by your committee, and whatever other committees might be interested. I suppose the Armed Services Committee would be one of them. There might be others, to determine whether it is desirable to have a revision of all of these laws to make them more workable and clear and eliminate whatever may be unnecessary or duplicating.

Senator CAPEHART. Sort of recode them; put it all into one?

Mr. FLOETE. I think there is room for improvement and certainly for simplification. But I think it would be beyond GSA.

Senator CAPEHART. I don't want to get away from the money end and material end, but I do want to get into the small business percentage of defense contracts, and maybe others have questions here, along the lines of the money.

Mr. FLOETE. I think this chart that they have just put before you illustrates the rather complex system under which it is operated.

Senator CAPEHART. I am sure the chairman would love to consider codification. He just loves that sort of thing. He just went through that sort of thing for a year on the banking laws.

Senator ROBERTSON. House colleague, former chairman, Representative Brown. He has some questions he wants to ask.

Representative BROWN. Just this question. You said there was room for improvement in the law. Can you state where the improvement could be made?

Mr. FLOETE. Well, no. I am not a lawyer. Henry, could you speak on that, briefly?

Mr. PIKE. Just for one example, there is an authority which relates more to the stockpile, which is a related subject—the authority in the Department of Agriculture Commodity Credit Corporation, dealing with the barter of surplus agricultural commodities for strategic and critical materials. There are at least five laws that give authority to CCC for such a barter arrangement, all of which leads to a good bit of confusion.

In connection with the supplemental stockpile, there is authority for the transfer of strategic and critical materials acquired by barter and also those acquired through the use of foreign currencies derived from the sale of agricultural commodities—for the transfer of those materials to the supplemental stockpile or to the national stockpile. There is also authority for such transfers in Public Law 733, 84th Congress, relating to domestic tungsten, asbestos, fluorspar, and columbium-tantalum programs. There is no authority, however, to transfer the Defense Production Act inventories to the supplemental stockpile. When materials are transferred to the national stockpile from Agriculture, there is a reimbursement of funds, but when there is a transfer to the supplemental stockpile, there is no reimbursement of funds. When there is a transfer under Public Law 733, whether to the supplemental or to the national stockpile, there is no reimbursement.

Senator CAPEHART. What do you mean by the supplemental? That is not clear to everybody.

Mr. PIKE. The supplemental stockpile is just that. It was established by the Agricultural Trade Development and Assistance Act of 1954, specifically to cover commodities purchased with the use of funds derived from the sale of surplus agricultural commodities.

Senator CAPEHART. A supplemental stockpile is those materials purchased with currencies of foreign countries?

Mr. PIKE. That is right.

Senator CAPEHART. Which they paid for surplus products with, and then turned around and bought critical materials?

Senator ROBERTSON. We have a representative from the Department of Agriculture who handles that program, if you want him to put in the details.

Mr. PIKE. I was merely reciting some of the difficulties that we have. The supplemental stockpile differs primarily from the national stockpile in that there are no quantity limits.

Senator CAPEHART. Who has the last word as to what they will and will not buy, under the supplemental stockpile? The CCC or you, or who?

Mr. PIKE. CCC, in practice, has been bartering for commodities only in accordance with programs set by the Office of Defense Mobilization.

Senator CAPEHART. In other words, the ODM set up the criteria under which the CCC buys them; is that it?

Mr. PIKE. That is correct.

Senator CAPEHART. Are they delivered to you? Is that right?

Mr. FLOETE. We take custody.

Mr. PIKE. One other difference. There is a difference between the supplemental stockpile and the national stockpile because of the wording of the law. There is no authority to utilize the materials in the supplemental stockpile in accordance with section 5 of the Stockpiling Act. In other words, there is no authority in the law at present to use it in case we had a war tomorrow.

Senator CAPEHART. Do you mean the CCC or the supplemental?

Mr. PIKE. The supplemental stockpile, which is the ultimate destination of these materials. Originally, they came to CCC.

Senator CAPEHART. Isn't the problem that we cannot get an appropriation to transfer the CCC stockpile?

Mr. PIKE. No. No reimbursement is made to CCC by GSA for transfers to the supplemental stockpile. What I am saying is, when you get the materials in the supplemental stockpile, there is no authority now, unless we come to Congress and have a special law passed, to actually use them if we had a shooting war tomorrow.

Senator CAPEHART. We had better have such a law, then.

Mr. PIKE. I am merely reciting some of the difficulties that we have experienced with this conglomeration of laws.

Senator CAPEHART. Mr. Chairman, I suggest we ask these gentlemen to prepare such a law immediately, because I don't know what good these materials are if we cannot use them.

Mr. PIKE. Many of the matters that I raise are matters beyond the jurisdiction of GSA.

Senator CAPEHART. I understand that, but somebody ought to propose such a law.

Senator ROBERTSON. The chairman agrees with the suggestion that somebody interested in this program, representing the Administration, should suggest legislation to introduce in the House and Senate on this subject.

Senator BRICKER. Do you mean to tell me the supplemental stockpile which is purchased with counterpart funds, is not subject to the administration for use in time of war?

Mr. PIKE. That is correct.

Senator BRICKER. Doesn't the general law cover it?

Mr. PIKE. The law that established the supplemental stockpile is section 104 of the Agricultural Trade Development and Assistance Act of 1954; section 104 (b) of that law provides:

> All strategic and critical materials acquired under the authority of this title shall be placed in the above-named supplemental stockpile and may be additional to the amounts acquired under authority of the Strategic and Critical Materials Stockpile Act. Materials so acquired shall be released from the supplemental stockpile only under the provisions of section 3 of the Strategic and Critical Materials Stockpile Act.

Section 3 of the Stockpile Act provides machinery for the disposal of material from the stockpile to industry, which requires a publication

in the Federal Register and notice to Congress, and, except where there is a disposal because of obsolescence, the express approval of Congress.

Section 5 of that act provides another method of disposition. That is the method whereby the President can use the materials during times of war, but because of the wording of section 104 of the Agricultural Trade Development and Assistance Act, we cannot use the authority under section 5 as applied to the supplemental stockpile.

Senator ROBERTSON. I would like to ask right at that point, Mr. Rawlings, who is head of that section, if he agrees with this interpretation of the supplemental stockpile. Do you agree that is correct?

Mr. RAWLINGS. Yes, sir. That is correct. It would require a joint resolution of Congress.

Senator ROBERTSON. That could be changed by adding to section 3, under the Disposal Authority.

Mr. PIKE. Yes, sir.

Senator ROBERTSON. That is rather simple.

Representative BROWN. Can you sell anything out of stockpile without legislation?

Mr. PIKE. No, with certain exceptions.

Senator CAPEHART. I make a motion, Mr. Chairman, that our staff be directed to prepare such a resolution for introduction in the Senate and the House.

Senator ROBERTSON. You heard the motion.

Is there objection?

If not, it is so ordered, and the staff will prepare this amendment to the act on supplemental stockpiling.

The Chair recognizes the Representative from Iowa.

Representative TALLE. I am glad to have you as a witness, Mr. Floete. In other years, when Dr. Flemming was head of ODM, I often asked about writeoffs. Are the amortization certificates sufficient incentive to production?

Mr. FLOETE. I would be of the opinion that they are.

Representative TALLE. Dr. Flemming always said so. Do you frequently use in conjunction with them, the guaranteed purchase contracts?

Mr. FLOETE. Yes. Particularly where we are trying to get new facilities erected.

Representative TALLE. I suppose nickel is in greater short supply than any other strategic metal.

Mr. FLOETE. That is one of the most critical, yes, sir. It continues to be.

Representative TALLE. Next in order, which would you name?

Mr. FLOETE. Well, I suppose it would be those of which our stockpile has the smallest amount. I have the record here. You have to be careful in some of these things that are classified.

Senator CAPEHART. That is possibly classified. We can get a statement submitted by the staff.

Representative TALLE. I prefer that you don't answer my questions if the answers involve classified matters.

Another matter I used to inquire about is whether small business is getting a fair share of contracts.

Mr. FLOETE. Well, of course, by the very nature of this particular business, it is difficult. However, the warehouses that we operate—220 of them—many of them are operated through contracts with

private parties and most of those go to small business. We also purchase, where we can, in small quantities, and when we dispose of various items from the stockpile, we break them up into small lots, so that small business can bid on them. Generally, of course, we enter into large contracts relating to metals and minerals and such other materials as cordage. It is almost impossible to do so with small business.

Mr. Weaver of the Defense Material Services says that under the domestic programs authorized by Congress, they are practically all with small business. Really, one of the reasons it was devised——

Senator CAPEHART. You are talking about everything you purchased from toothpicks to——

Mr. FLOETE. No. I am talking here only of the defense materials—the strategic and critical materials—some 75 of them. We do a large amount of business in our other services; our Federal Supply Service.

Senator CAPEHART. I thought you were talking about those, as well as those things purchased under the Defense Production Act.

Mr. FLOETE. In our Public Building Service, we also do a large amount with small contractors—at the moment, I have forgotten the percentage. It is a very large percent.

Representative BROWN. How about your Defense Production Act funds? Are these funds adequate or inadequate?

Mr. FLOETE. We think they are adequate for the present time.

Representative TALLE. I believe that titanium production has come up at a pretty good rate.

Mr. FLOETE. Yes, sir. It has.

Representative TALLE. I recall when titanium production was in its infancy; it seems to me it has come forward at a very good rate.

Mr. FLOETE. We had in our DPA inventory 9,300 tons. It cost us $82 million. That is a case where it was felt desirable to develop this particular industry. We attempted to sell a portion just lately. We have not had any luck in getting a price we thought we could accept. The prices offered were a good deal less than the present market. In some cases, the market is less than what it cost us. That is unfortunate.

Senator BRICKER. Are you buying additional today?

Mr. FLOETE. Yes, we have firm contracts.

Senator CAPEHART. Made years and months ago.

Senator BRICKER. They are commitments that you made in the past that you have to meet?

Mr. FLOETE. Yes. There is what we call an exposure—a contingent liability of some $115,565,000, representing a tonnage of 13,605.

Representative TALLE. If my question is appropriate, is the stockpiling programing coming along in a satisfactory rate?

Mr. FLOETE. Do you mean the national stockpile?

Representative TALLE. Yes.

Mr. FLOETE. Yes.

Representative TALLE. I am thinking of the strategic material.

Mr. FLOETE. Yes. I think it is in pretty good shape.

Representative TALLE. I think your answer is adequate, Mr. Floete, for my purposes.

Mr. FLOETE. Here is one interesting fact that I could tell you. We are now in open session?

Senator CAPEHART. We might discuss in executive session why the titanium is no longer needed as much as it was a few years ago.

Mr. FLOETE. I understand its use is growing. It is growing quite rapidly.

Senator CAPEHART. It cannot be used for purposes it could before.

Representative MCDONOUGH. Mr. Floete, why do you buy low-grade material for the stockpile?

Mr. FLOETE. We don't buy it for the national stockpile. It does not go to the national stockpile unless it fully meets the specifications.

Representative MCDONOUGH. You do purchase low-grade material?

Mr. FLOETE. Yes, but not for the national stockpile. It goes into the DPA inventory or into the Commodity Credit inventory, but we don't buy it for the national stockpile.

Representative MCDONOUGH. Are you doing anything to make those low-grade materials meet specifications?

Mr. FLOETE. Yes. We are beneficiating where we can. We have one particularly on tungsten because we have such a large supply of tungsten and a good deal of it will not meet national stockpile specifications. How successful they are going to be, I don't know. Generally speaking, sir, we have quite a lot of materials which could be upgraded but it is a policy of the Administration not to do that at the present time. When the ODM directs it to be done on a large scale is when it can be done.

Manganese is a good example. Low grade manganese for the domestic purchase program could be upgraded.

Senator CAPEHART. Your authority comes entirely from the Office of Defense Mobilization?

Mr. WEAVER. Yes, sir.

Senator CAPEHART. You simply are acting as one of their agents. You make no policy at all, do you, on any of these matters?

Mr. FLOETE. No, sir.

Senator CAPEHART. You are just an agent of what they tell you to do. They ask no questions, do they?

Mr. FLOETE. We are in constant contact. We advise one another.

Senator CAPEHART. They do, as a matter of being good businessmen and as a matter of practicability but they are not required to do so under the law?

Representative BROWN. Can you sell any of these low-grade materials? Is there any market for it?

Mr. WEAVER. There is no commercial market for this low grade, sir.

Representative BROWN. Why is it bought?

Mr. WEAVER. It is bought under instruction of Congress, such as Public Law No. 733 and other laws of that nature. I don't recall the number, 206?

Representative BROWN. That might be another good amendment.

Representative TALLE. Is your problem finding an economical process for upgrading?

Mr. WEAVER. Yes, sir. In this manganese problem, we are working with research contracts to develop ways and means of upgrading at the most economical cost.

Mr. PIKE. I think I can answer part of your question. The Defense Production Act is not primarily a tool for acquiring materials for the national stockpile. It is used for—I mean, many of the materials acquired to go into the stockpile. The Defense Production

Act is primarily a tool for expansion of productive capacity. A good example of that is titanium. We have induced the expansion of titanium capacity; in order to do it, we have bought titanium that does not meet stockpile specifications. That is how, in the process of seeing that the domestic industry is expanded, we have acquired materials that are below stockpile specifications.

Senator CAPEHART. I was going to ask you about the fact that materials that are below standard come from our own domestic production, and we do so in order to encourage domestic production.

Mr. FLOETE. That is correct.

Senator CAPEHART. Under 733?

Mr. PIKE. Under the Defense Production Act and also under Public Law 703.

Representative MCDONOUGH. In the stockpile on aluminum, in what form is the aluminum that we have in the stockpile?

Mr. FLOETE. Generally, in what they call pigs or ingots.

Representative MCDONOUGH. It is not aluminum oxide?

Mr. FLOETE. No.

Representative MCDONOUGH. On the production of aluminum, we have such a vast industry in the United States on that, why do we stockpile that item?

Mr. PIKE. We did not have a vast industry for aluminum until we got into the picture. Now, in connection with aluminum, we have entered into contracts which enabled the aluminum companies to put aluminum to us. Some of this aluminum—not all of it, but some of it—is below the minimum stockpile specification, which is, I believe, 99.3 percent pure.

Now, some of the aluminum that can be submitted is 99.0. Some of it might be as high as 99.9.

Senator ROBERTSON. For the purpose of stimulating this production, you gave the aluminum industry an amortization writeoff in the amount of nearly $1 billion, is that correct?

Mr. PIKE. That is correct.

Representative MCDONOUGH. How much molybdenum? Do you have stockpiles of molybdenum?

Mr. FLOETE. Yes. That is in the stockpile.

Representative MCDONOUGH. Do you have high-grade molybdenum? Or is it low-grade stock?

Mr. FLOETE. Everything in the national stockpile is high grade.

Representative MCDONOUGH. When you say high grade——

Mr. FLOETE. Fully meeting the specifications that have been established for it.

Representative MCDONOUGH. In the metallic state or in the ore?

Mr. FLOETE. In the metallic state, I think.

Representative MCDONOUGH. It would be ferromolybdenum, I suppose.

Mr. WEAVER. We have Mr. Croston here, who is a mining engineer. I would like to have him explain the molybdenum position.

Mr. CROSTON. Molybdenum is not in the form of metallic molybdenum. It is in the form of molybdenum concentrate, which is used in the steel industry; either molybdenum oxide or the sulfide, and is readily usable. The steel industry does not use metallic molybdenum.

Representative MCDONOUGH. It is not a high grade molybdenum? A pure molybdenum? It is not a smelted metal?

Mr. WEAVER. It is used directly in the steel industry, without making a ferromolybdenum.

Representative MCDONOUGH. I don't know. Maybe these questions should go to the ODM. But have we stimulated the production of these rare metals, strategic metals, by this process, such as the acquisition of the national stockpile and tax amortization and contracts? Have we stimulated the production of these things in the United States?

Mr. FLOETE. I think so, very clearly.

Representative MCDONOUGH. Those things we stimulated production on, we have a greater supply of them now than we had at the end of World War II?

Mr. FLOETE. There is no question about it. No question.

Representative MCDONOUGH. In titanium, you indicate that we have got to the point where private industry can probably supply our needs without stockpiling, or do we have to stockpile?

Mr. FLOETE. Yes. But I believe the Government is responsible only for having gotten the thing started and now the costs of production are coming down; the cost of material is coming down; and the use of the material, I believe, is growing.

Representative MCDONOUGH. With aluminum, that is also true?

Mr. FLOETE. That was true, certainly, with aluminum.

Representative TALLE. I remember distinctly that in 1953 and 1954 there was a great scarcity of some grades of aluminum—a very great scarcity.

Mr. FLOETE. Here is an interesting figure. In 1950, the actual production was 719,000 tons. ODM embarked on a program in 1952, and established a revised expansion goal of 1,746,000 tons. That is a very, very large increase, you see.

Senator CAPEHART. Has that grown to 1.3 million or 1.4 million?

Representative BROWN. I would like to ask one question. Does the policy of the ODM restrict loans in favor of tax amortization?

Mr. FLOETE. I think Mr. Cooley, the Deputy Director of ODM, who is here, should reply.

Mr. COOLEY. I am sorry. I did not hear the question.

Representative BROWN. Does the policy of ODM restrict loans in favor of tax amortization?

Mr. COOLEY. Well, I think that if the facility that we are endeavoring to have expanded, can be done through tax amortization, we prefer to have it accomplished that way rather than commit the Government to a loan.

Representative BROWN. I think we lose a lot of money on tax amortization, now.

Senator FREAR. Is that the policy of Mr. Gray, now?

Mr. COOLEY. I had not discussed this particularly with Mr. Gray, but the feeling of our office has been that the tax amortization is the least expensive way of accomplishing expansion in facilities.

Senator FREAR. Well, the reason I ask that, sir, Mr. Gray testified before the Finance Committee not long ago. It was in executive session, and to me, there is a little variance in the answers.

Mr. COOLEY. Well in what respect? I am afraid I don't follow you.

Senator FREAR. I don't think he agreed with what you said, unless I misinterpreted you.

Mr. COOLEY. I think this is contrasting tax amortization with the Government making loans, as I understand it.

Senator FREAR. That is right. I understood you to say that your policy was in favor of tax amortization over the Government policy of making loans. Is that correct?

Mr. COOLEY. We prefer to issue a tax amortization certificate, whereby private capital would be invested in the program, rather than have the Government supply the entire capital through a loan of Government funds.

Senator FREAR. Well, the Government is supplying the capital or loan money to a private enterprise.

Mr. COOLEY. That is what I understand your question to be.

Senator FREAR. That is the Congressman's question.

Representative BROWN. Is it possible to have defense production loans under your policy?

Mr. COOLEY. Yes. There are many, many loans that have been made through the borrowing authority, since the Defense Production Act was created. The Treasury, of course, makes the loans. We issue a certificate of essentiality.

Representative BROWN. Under your policy now, I don't see how you can make a defense production loan.

Mr. COOLEY. As a matter of fact, I don't believe that we have made any loans recently, although we have applications of loans before us now. Most of the expansion that we have sought has been achieved. But, I don't believe there is any prohibition on our making the loans, if the occasion arose, and if it were justified.

Representative BROWN. It is a policy, though, is it not? There may not be any restriction, but if you take it as a policy, that is a semi-restricted area in which one must operate.

Mr. COOLEY. Again, I make the distinction that if we place the method of obtaining expansion in production capacity for defense purposes in order of preference, I would think that the tax amortization would be the first thing before we go into either guaranteeing loans or making loans.

Senator FREAR. As I said, I did not quite gather that from Mr. Gray. Maybe I misunderstood him, too.

Mr. COOLEY. I did not understand the question came up. I did not attend, but I did not know that the question came up, comparing one with the other.

Senator FREAR. It was not a direct comparison. I think if you read the testimony, you will see the examples which were given.

Mr. COOLEY. I will be very happy to do that.

Senator FREAR. As I say, maybe I am wrong. That was my impression.

Senator BRICKER. Do you think you are getting on top of the nickel program before the supply will be inadequate?

Mr. FLOETE. Yes, sir. Last May, ODM determined that it was advisable to expand the nickel production. Prior to that time, the amount available in the United States was about 300 million pounds. ODM decided that the goal should be increased to about 440 million pounds. Through the expansion of the Nicaro project, we will have additionally, from 20 to 24 million pounds. The Freeport contract will produce 50 million pounds. International Nickel has announced that it will produce in Manitoba about 75 million additional pounds.

So that those three together add up to the amount of expansion contemplated by ODM last May.

Senator BRICKER. That is for the foreseeable needs?

Mr. FLOETE. Yes, sir. That is the present estimate.

Senator BRICKER. One other question. Titanium 2 years ago was almost a miracle metal; was it not?

Mr. FLOETE. Yes, sir.

Senator BRICKER. And the Government has done a remarkably fine job in promoting the production of titanium. You mentioned that you offered to sell some recently. Is not the research program being carried on now, in the titanium alloys one that might, in the foreseeable future, require all that you have or all that can be mined or all that can be produced?

Mr. FLOETE. Well, that is the anticipation; yes, sir.

Senator BRICKER. That is what I thought. It is very valuable.

Mr. FLOETE. I think some of the titanium we have was produced during the early experimental stages, and perhaps would not meet the needs today, although we did take bids on March 13 and received a bid of $2 a pound, when the market was $2.50.

Senator BRICKER. Of course, there are not many industries set up to use them now.

Mr. FLOETE. No. They are learning. There will have to be a good deal of educational work done.

Senator BRICKER. But it is really more needed for the Government program than for anything else at the present time; is it not?

Mr. FLOETE. Yes. I think it has proven very beneficial.

Senator BRICKER. Just one more question occurred to me. I note here that you have some figures here, which were unavailable in the last 3 or 4 years. I think that production has been brought about.

Mr. WEAVER. I would like to have Mr. Croston speak on that.

Mr. CROSTON. Some of the rare earths are being produced with contracts with the GSA especially in Idaho, the Porter Bros. have a dredging project there, and they produce thorium, columbium concentrates and then, there are other rare earths which we are saving.

Senator BRICKER. Of which you don't know the use of. Thorium is not a rare earth, so to speak?

Mr. CROSTON. No.

Senator BRICKER. These are byproducts, that come from the processes of thorium?

Mr. CROSTON. That is right.

Senator BRICKER. Thorium is very valuable, of course. You are stockpiling against the future needs and future research development?

Mr. CROSTON. That is right.

Senator BRICKER. Are they dependent at all now, on foreign sources? I remember at one time, say, 5 or 6 years ago, when we tried to get some, we could not get it from the 2 available world sources. Now, through this program you have developed it in Idaho. Have we an adequate supply now of what we anticipate to be our war needs?

Mr. CROSTON. That would include perhaps other materials. Maybe you have in mind lithium.

Senator BRICKER. Yes.

Mr. CROSTON. And others. Large supplies are being developed in the United States and Canada and large supplies have recently been

developed in southern Africa, but I think in the foreseeable future, that the supplies of lithium will be more than adequate.

Senator BRICKER. There was a time, I think, a few years ago, when we were utterly dependent on India.

About the lead and zinc program, I noticed some comment in some of the press about the prices on lead and zinc. What is the development of that program?

Mr. WEAVER. I think the Office of Defense Mobilization should answer that question, Senator.

Senator BRICKER. To correct the record, I think that the statement of Mr. Gray was to the extent that maybe the tax-amortization program ought to be limited to purely military items in the future, with the standby authority for the President, in case of extreme need.

Mr. WEAVER. I did not understand that.

Senator BRICKER. I think the recommendation of Mr. Gray was that in the future, tax amortization ought to be limited to military items with standby authority for the President in case of emergency, to apply to domestic production.

Mr. COOLEY. Yes. I think that expresses the feeling of ODM.

Senator ROBERTSON. Well, the chairman has a copy of the letter from Mr. Gray to Senator Byrd of May 16, and we will put that in the record at this time, which asked the ODM Director for—

facilities to provide research, development, or experimental services for the Department of Defense (or any of its component Departments) or for the Atomic Energy Commission as a part of the national defense program, (B) production or transportation facilities for defense items or components of defense items (as defined in par. (4)), or (C) facilities required for the production of special strategic materials, metals, or gases in short supply for defense items or components of defense items as the certifying authority, designated by the President by Executive order, has certified as necessary in the interest of national defense during the emergency period.

(The above-mentioned letter is as follows:)

MAY 16, 1957.

Hon. HARRY F. BYRD,
Chairman, Committee on Finance,
United States Senate, Washington, D. C.

DEAR SENATOR BYRD: Pursuant to your suggestion made during the hearings on S. 1795 on May 9, 1957, I submit for your consideration changes in language which would limit the amortization program in a manner compatible with your general objective while at the same time providing a method for meeting unforeseeable essential mobilization requirements without resorting to the direct expenditure of Federal funds for the construction of Government-owned plants.

S. 1795 should be amended by striking the term "new defense item" wherever it appears, and substituting therefor the term "defense item."

It is also recommended that section 2 (b) of the bill be amended by striking the material beginning with the phrase "as the certifying authority" on line 17, page 2, and ending with the word "program" on line 3, page 3, and substituting therefor the following: "of (A) facilities to provide research, development, or experimental services for the Department of Defense (or any of its component Departments) or for the Atomic Energy Commission as a part of the national defense program, (B) production or transportation facilities for defense items or components of defense items (as defined in par. (4)), or (C) facilities required for the production of special strategic minerals, metals, or gases in short supply for defense items or components of defense items as the certifying authority, designated by the President by Executive order, has certified as necessary in the interest of national defense during the emergency period,".

In addition, it is recommended that identical paragraphs (4) (A) (ii) and (4) (B) (ii) on pages 4 and 5 of the bill be amended to read as follows:

"(ii) for the production of which existing facilities are inadequate because of its newness or because of expanded defense requirements."

Since it is recognized that national interest might conceivably make it advisable to employ a more liberal policy with an absolute minimum of delay, it is also recommended that the following new paragraph be added:

"(5) The President, upon notification to the Congress, is authorized when required by the national defense to suspend temporarily the restrictions on certification prescribed by clauses (A), (B), and (C) of paragraph (2). The authority of the President granted by this paragraph may not be redelegated."

The foregoing suggestions are compatible with the recommendations of the Secretary of the Treasury and the Director of the Bureau of the Budget.

Sincerely yours,

GORDON GRAY, *Director.*

Senator ROBERTSON. I want to ask Mr. Floete this. We put in a big list of minerals and metals, on which you have taken a terrific loss. We had $851 million loss in there. Why can you not give all incentives from now on out under the Defense Production Act, rather than amortization or a combination of amortization and the Defense Production Act?

Mr. FLOETE. Do you mean to proceed by way of incentive contracts, rather than employing these others?

Senator ROBERTSON. You have the authority to make loans under the Defense Production Act. They pay interest on it.

Mr. FLOETE. Yes, we have that authority.

Senator ROBERTSON. Now, there was some testimony. The Secretary of the Treasury said on amortization, we had already faced up a loss of at least $3 billion, now estimated by some up to $5 billion, in revenue. That is rather expensive incentive.

Mr. FLOETE. Well, sir, we had an example here, under the nickel program, where we did not decide the policy, but Bethlehem Steel offered to build a plant in Cuba if the Government would put up all the money. They did not require any incentive price at all, but it was determined as a matter of policy that we would not proceed by putting up money, and so that proposal was turned down.

Representative MCDONOUGH. Was not that loan guaranteed by Bethlehem? Was it not an interest-bearing loan that was proposed?

Mr. FLOETE. Yes, it would have been an interest-bearing loan.

Representative MCDONOUGH. At a rate higher than the average rate of Government loans?

Mr. FLOETE. We did not get to the point of actually discussing that.

Representative MCDONOUGH. Did they not make you an offer of that?

Mr. FLOETE. They made us an offer based on the Government loaning of the money.

Representative MCDONOUGH. Was not the interest rate calculated on that? Was there no discussion of the interest rate?

Mr. PIKE. That was a loan. It was to have been a loan by the Export-Import Bank of Washington. I believe—presume—at their then current rate. I am not sure what that is.

Representative MCDONOUGH. Would you assume that rate was above the bond rate, the average bond rate, of this country?

Mr. PIKE. I would assume that.

Representative MCDONOUGH. By what percentage?

Mr. PIKE. About 1 percent.

Representative MCDONOUGH. That is conservative.

Senator ROBERTSON. Then ODM would not let you make that loan?

Mr. FLOETE. No. They decided it was a matter of policy. They did not care to proceed that way.

Senator ROBERTSON. Under ODM policy, then, was the contract entered into between GSA and Freeport for nickel at prices much in excess of the offer of the Bethlehem Steel Co.?

Mr. FLOETE. Yes. The Bethlehem Steel price was to have been, as I recall it, 10 percent under the market for a portion of the production and——

Senator ROBERTSON. Was the tax amortization certificate issued to Freeport Sulphur Co.?

Mr. FLOETE. It has been issued; yes, sir.

Senator ROBERTSON. It is a right substantial amount, I believe.

Mr. FLOETE. I think it was 80 percent of the estimated cost of $95 million.

Representative MCDONOUGH. Over a 5-year period?

Mr. FLOETE. Yes, sir.

Senator ROBERTSON. Was there opportunity to compare and accept the best offer to the Government, or was this precluded under the policy promulgated in this instance by ODM?

Mr. FLOETE. Well, historically, I think the first proposal came from Freeport Sulphur. Then I think before anything had been done with Freeport, we received a proposal from Bethlehem Steel, which we immediately submitted to ODM because it involved a different metnod. After the determination was made not to adopt that method we did not proceed further on that basis, and thereafter the agreement was made with Freeport.

Senator ROBERTSON. Secretary Humphrey, in testifying before the Senate Finance Committee, described amortization as being equivalent of a tax-free loan. Now, I want to ask you if, in your opinion, you don't think it would be in the interest of the Government to lend under the Defense Production Act, money to be repaid at interest, and to give to some of these companies, who have gotten—you mentioned some metals—over a billion dollars in certificates, these amortization privileges. Would it not be better to lend them some money and let them pay interest above what you say the Government is paying on the money borrowed?

Mr. FLOETE. Mr. Chairman, we recommended the Bethlehem contract.

Senator ROBERTSON. Yes.

Senator CAPEHART. I don't agree with Humphrey. I don't agree it is better to do it and I don't agree with this philosophy that this quick amortization is not a good thing. I want the record to show I think it is excellent thing. Furthermore, while the Government loses some tax revenue for the first 5 years, in the case of aluminum production and your basic commodities, they get all the money and more back after 5 years, because after 5 years, you have completely written off your capital investment, you pay taxes on. You have no tax deduction then, from that time one. If it is to be 80 percent, you have only a 20 percent reduction.

Senator ROBERTSON. Let the chairman make this statement, right here. In writing the former Director of ODM last fall about proposals on Hells Canyon and Idaho Power Co., the chairman took the position that Congress, in providing a quick writeoff amortization, intended that power to be used in connection with expansion essential to the

defense effort, and he wrote the then Director that he could not see where this proposed development on the Snake River, in Oregon, of Idaho, had anything at all to do with the defense effort and therefore, he hoped a quick writeoff would not be granted. The former Director did not grant them, but they were granted by his successor. Now, the chairman thinks that if Congress thinks this is a fine thing to do to let anybody write off 80 percent of the tax in low paying taxes and get their money for expansion, in that way, Congress ought to write it into the act. The Agency ought not amend the act along the lines of the Supreme Court in the school cases in the Constitution.

Senator CAPEHART. Let me say this. We have already given amortization to over 900 power facilities since the act was passed. Here is 1 out of 900 that becomes in the minds of some people, a great sin or a wrong, and yet we granted the 900. I also wish to call attention to the fact that this law was passed originally for this quick amortization back in 1950. I think it was in 1950 or 1951. At that time, it was an excellent thing but now, for some unknown reason, in the minds of certain people, it is no longer any good.

Representative MCDONOUGH. Was it not to expand the facilities then urgently needed—the facilities which are not urgently needed now?

Senator ROBERTSON. On this policy of ODM, let me read the release of Tuesday, November 8, 1956, and I quote:

> The Office of Defense Mobilization today ruled out direct Government loans as an incentive to industry for increasing United States nickel supplies.
>
> The incentives now in effect are rapid tax amortization and Government purchase contracts which would, where justified, make allowances for unusual development costs.
>
> The incentive program had been under review as a result of a proposal by a domestic company which called for a direct Government loan to assist in financing the company's project.
>
> On May 17, 1956, ODM set an annual nickel supply goal of 440 million pounds to be available by 1961.

Senator FREAR. I made a statement. I asked the Senator from Indiana a question. Does he think rapid tax amortization is not a subsidy?

Senator CAPEHART. A subsidy?

Senator FREAR. Yes.

Senator CAPEHART. No. I don't think it is a subsidy, at all.

Senator FREAR. Do you admit then, that the amount of money saved in a rapid tax amortization is not tax-free money?

Senator CAPEHART. I do. Let me say this. I have introduced not once, but I guess half a dozen times, a quick tax amortization to apply to all businesses when they are building new facilities, as well as purchasing old, because my best judgment is that the best way in the world to maintain full employment in America and stimulate business, and particularly help the little fellow is to permit him to plow his profits back into business, through virtue of quick tax amortization. I think the taxpayer in business ought to be able to elect whether he does it in 5 years or whether he takes 25 years, but I think it depends entirely on his election. It would depend entirely on his financial condition. I can think of no better way to maintain full employment in America, stimulate production in America, and create a situation where the Government would collect unlimited taxes, over the years, than to have quick amortization.

Senator FREAR. They can only collect 100 percent.

Senator CAPEHART. No. No. You would be stimulating business. You would be stimulating jobs. I can show you where quick amortization will create thousands and thousands of jobs and help thousands and thousands of little businesses and of course, you cannot help little business without helping big business. You cannot help big business without helping little business. I am a great believer of quick amortization for all business, regardless of whether it is in the national defense or not.

Senator ROBERTSON. Might I say, that might be a theory of taxation?

Senator CAPEHART. It is my theory. Capehart's theory.

Senator ROBERTSON. That just does not happen to be the law. The law gears it to defense efforts. The little fellow that the Senator says he is so much concerned with just does not get it.

Senator CAPEHART. That is not true. Please don't say that.

Senator ROBERTSON. I thought you said that is the way they help the little fellow.

Senator CAPEHART. You said, under the present law, the little fellow does not get it.

Senator ROBERTSON. No, he doesn't.

Senator CAPEHART. Yes. The little fellow in hundreds and hundreds of cases has gotten it even on one machine tool, that he purchased.

Senator FREAR. I think the people we called up here are enjoying this debate, but I think if the Senator from Indiana wants to look up the record of how much small business has had in amortization, he will find it is a very small amount.

Senator CAPEHART. It may be small in dollars, but many have it. In other words, the law did not preclude them from getting it. I could name for you now, a number of small businesses that got tax amortization on $5,000 worth of machine tools they bought.

Senator ROBERTSON. Let me read the list.

Alcoa, $282,795,000, certified.

Reynolds, $200,639,000.

Kaiser, $221,849,000.

Anaconda Aluminum, $65,150,000.

Harvey Machine, $65,250,000.

Olin-Mathieson Chemical, $89,756,000.

Where do you get little ones?

Senator CAPEHART. There are not little people in the aluminum business. None in it at all. You could say Harvey was a little man in the aluminum business.

Representative TALLE. Let me mention some little ones. The farmers can do it on corn cribs.

Senator CAPEHART. Why sure. Every farmer in the United States can get a 5-year amortization under the law passed by this Congress and voted for by everybody at this table, on building a granary to store corn.

Senator ROBERTSON. That was not a quick writeoff of the defense bill. That was a little sop we gave them. They were going so badly in the hole, we were trying to help them on taxes.

(Off the record discussion.)

Senator CAPEHART. No. No. No. Wait a minute, now. Let's be fair here, now. ODM does it under the national defense, but under the corncribs that you are talking about, the farmer automatically does it. He does not have to get any permission from anybody. He just simply does it.

We did it in order to increase production of corncribs, or so that the farmers would build more corncribs.

Senator BRICKER. I wonder if you have a list of the amortization allowances and how many of them have run in the past 5 years, and are now paying full taxes.

Senator CAPEHART. Whoever took it out 5 years ago would be in that category now.

Mr. FLOETE. Exhibit 3 attached to my statement gives a list but it does not break it down into those which have expired. We could do that.

Senator BRICKER. I just would like to see it. We heard so much talk about this. The only subsidy there could possibly be in tax amortization is if taxes go down and after the amortization is passed, the taxes are lower.

(The material which follows was submitted for the record:)

The information requested by Senator Bricker is as follows:

Upon investigation, we find that we are unable to furnish the information requested by Senator Bricker. We are advised by the Office of Defense Mobilization that there are only two methods of determining when a tax amortization certificate is used by a taxpayer or runs out. The first method would be to circularize all recipients of tax amortization certificates asking them to submit the desired information. The second method would involve an examination by the Bureau of Internal Revenue of the tax returns of every recipient of a tax amortization certificate. Both methods would be costly and time consuming.

However, in order that the committee might have an overall picture of the tax amortization certificates issued, the following table, prepared by the Office of Defense Mobilization, shows total tax amortization certificates issued by quarter years from November 1950 through April 30, 1957.

Certificates of necessity outstanding: Cumulative and quarterly actions, 1950–57

Year and quarter	Quarterly actions				Cumulative total			
	Number of certificates	Cost of facilities	Certified for fast writeoff		Number of certificates	Cost of facilities	Certified for fast writeoff	
			Amount	Percent of cost			Amount	Percent of cost
		Millions	*Millions*			*Millions*	*Millions*	
1950—November to December	149	$1,401	$1,004	71.7	149	$1,401	$1,004	71.7
1951—January to March	788	3,211	2,232	69.5	937	4,612	3,236	70.2
April to June	1,385	3,266	2,091	64.0	2,322	7,878	5,327	67.6
July to September	1,767	1,933	1,244	64.4	4,089	9,811	6,571	67.0
October to December	1,382	2,160	1,214	56.2	5,471	11,971	7,785	65.0
1952—January to March	3,524	5,975	3,099	51.9	8,995	17,946	10,884	60.6
April to June	3,019	3,951	1,977	50.0	12,014	21,897	12,861	58.7
July to September	1,934	1,984	990	49.9	13,948	23,881	13,851	58.0
October to December	1,051	1,368	700	51.2	14,999	25,249	14,551	57.6
1953—January to March	1,214	1,555	874	56.2	16,213	26,804	15,425	57.5
April to June	1,267	1,558	769	49.4	17,480	28,362	16,194	57.1
July to September	751	1,014	507	50.0	18,231	29,376	16,701	56.9
October to December	524	880	456	51.8	18,755	30,256	17,157	56.7
1954—January to March	377	527	285	54.1	19,132	30,783	17,442	56.7
April to June	425	678	381	56.2	19,557	31,461	17,823	56.7
July to September	339	457	279	61.1	19,896	31,918	18,102	56.7
October to December	264	233	116	49.8	20,160	32,151	18,218	56.7
1955—January to March	265	465	292	62.8	20,425	32,616	18,510	56.8
April to June	390	589	296	50.3	20,815	33,205	18,806	56.6
July to September	224	812	388	47.8	21,039	34,017	19,194	56.4
October to December	314	1,812	1,095	60.4	21,353	35,829	20,289	56.6
Less net adjustment not allocable to periods					874	1,748	526	
Subtotal (November 1950 to December 1955)					20,479	34,081	19,763	58.0
1956—January to March	305	1,833	1,302	71.0	20,784	35,914	21,065	58.6
April to June	562	1,625	1,022	62.9	21,346	37,539	22,087	58.8
July to September	227	390	209	53.6	21,573	37,929	22,296	58.8
October to December	148	242	141	58.3	21,721	38,171	22,437	58.8
1957—January to March	152	628	324	51.6	21,873	38,799	22,761	58.7
April	52	382	210	55.0	21,925	39,181	22,971	58.6

Senator FREAR. I have a great deal of respect for the Senator from Ohio, as he very well knows but rapid amortization gives the company interest-free money that he would be paying into the Government. He has that 5 years of interest-free money.

Senator CAPEHART. And he may get a reduction in taxes if we can cut the present budget and the one next year.

My argument is he creates a job. He creates business. It far overshadows anything that may be against it because it is a positive productive thing and I repeat again, if you would adopt it for civilian goods, would particularly help the little fellow.

Senator ROBERTSON. I am going to recognize the former Chairman, from Georgia, Mr. Brown, then recognize the chief clerk of this committee. He has been studying this thing. There may be 2 or 3 very essential points in our interest in some practical, political phases, we may have overlooked. The Representative from Georgia.

Representative BROWN. I want to ask Mr. Cooley a question. I revert to the previous question I asked you. Was the nickel contract with Bethlehem Steel Co. ruled out because it was contrary to the policy of ODM?

Mr. COOLEY. I am sorry.

Representative BROWN. You lost some money on that?

Mr. COOLEY. I am sorry. I did not hear your question.

Representative BROWN. You lost some money on that deal, did you not?

Mr. COOLEY. I did not hear your question.

Representative BROWN. Well, this nickel contract with Bethlehem Steel Co. was ruled out because it was contrary to the policy of ODM?

Mr. COOLEY. I cannot specifically answer that except to say that I know that the whole subject was discussed thoroughly with the Defense Mobilization Board, which is, as I am sure you know, a Cabinet level board, and after that discussion the Director reaffirmed the statement that was made about not offering, guaranteeing loans, for production of nickel.

Representative BROWN. You lost a good deal of money by not making that contract too, did you not?

Mr. COOLEY. I am not able to answer that.

Representative BROWN. I know that may be classified. I won't go into the amount.

Senator ROBERTSON. The Chair is going to recognize the chief clerk, Mr. Warren, very briefly, because the time is approaching when we must adjourn and recess. Possibly we can have a hearing again Tuesday of next week.

Mr. WARREN. When a determination is made by the Office of Defense Mobilization, what part is played by the Bureau of the Budget? Can the Office of Defense Mobilization be overruled by the Bureau of the Budget?

Mr. FLOETE. In a DPA matter?

Mr. WARREN. Yes, sir.

Mr. FLOETE. Well, the only particular in which the Bureau of the Budget gets into it is through the apportionment process. I don't know of any case where that has arisen. Do you?

Mr. MEDLEY. Well, there may be. I don't remember any particular cases. There may have been 1 or 2 cases where the Bureau of the Budget withheld their apportionment until they were satisfied that the program in question met their criteria. They evaluate those projects from about five different points. First is, does the project conform to the program of the President. Does it conform to the governmentwide policies in general?

Second, is there any legislation pending before the Congress for a similar or identical program which might make it inappropriate to use the borrowing authority?

Third, would the production under the proposed program when added to existing supply and new supply, be within the expansion goals of ODM; and

Fourth, is the project of a type which is normally financed from appropriate funds which may make the use of the borrowing authority inappropriate?

Fifth, are the stimulated financial requirements of the program reasonable?

Mr. FLOETE. I think maybe the answer, at least is partially contained on page 8 of my statement which indicates that out of a total of $1,492 million certified, $1,482 million has been apportioned.

Mr. WARREN. In other words, if the Director of the ODM makes a determination, it could be overruled by the Bureau of the Budget?

Mr. FLOETE. I cannot answer that, sir. Can anyone here?

Mr. WARREN. Can Mr. Cooley answer that?

Mr. COOLEY. I am not sure that I can answer the question, except my belief is that if it were a matter of national security—if a matter of national security were involved, that is what we are dealing in, principally, I think that the decision of the Office of Defense Mobilization would prevail. I presume you mean in connection with the Defense Production Act borrowing.

Mr. WARREN. Yes.

Mr. COOLEY. I personally don't know of any conflicts. There may have been some, but I don't know of any.

Mr. FLOETE. Normally, the Bureau of the Budget, I think, could do that.

Representative MCDONOUGH. If that is the case, the Bureau of the Budget would slow up the defense production. They would overrule any acquisition of the national stockpile and certainly, the Defense Production Act itself must provide for some——

Mr. FLOETE. I think we ought to look it up.

Representative MCDONOUGH. Elimination.

Mr. WARREN. Will you supply that for the record?

Mr. FLOETE. Yes. (See p. 65.)

Senator CAPEHART. Is there any difference? You could ask that question of any Government agency, could you not, in Washington? Could it not be asked of the Treasury Department, the Department of the Interior, Commerce, any department? The Bureau of the Budget sort of looks after and audits it to make sure they don't spend more than the law requires. Is that not about as far as the Bureau of the Budget goes?

Mr. FLOETE. In the apportionment process. I think that is within their jurisdiction but again, I am talking about another agency, now. I would rather supply that. (See p. 65.)

Mr. WARREN. Are all of the transactions under the borrowing authority reviewed by the Bureau of the Budget, either the contracts or the transactions—each separate transaction or each program?

Mr. MEDLEY. Mr. Warren, before we can enter into a contract, after we get the program certified to us, we cannot obligate those funds until we have submitted an apportionment request in the Bureau of the Budget, and the Bureau of the Budget has approved that apportionment request of the funds. Now, that applies to the borrowing authority; all phases of it, as well.

Mr. WARREN. Do you interpret this to be a bookkeeping matter or a restriction that goes beyond the bookkeeping matter?

Mr. MEDLEY. Well, after all, the Bureau of the Budget and the ODM are both a part of the Executive Office of the President, so that I would interpret it as a technical matter but if you want to rely on the technical phase of it, why then, they have to approve the apportionment of funds before we can contract against it.

Senator ROBERTSON. That is on each individual item. That is the point he is trying to make. It is not on a quarterly basis, but on each item.

Mr. MEDLEY. The way it is worked, Mr. Chairman, is on each program, on each commodity program. In other words, we have a certificate from ODM on nickel, copper, and so on. We request our apportionments on those programs. After that, they do not follow the details of a contract except when they are phasing out the expenditures in order to estimate, you know, the total expenditures for the

purpose of the budget. Then they may get into the details of a particular contract but that is primarily for information in order to phase out the expenditure estimates.

Mr. WARREN. Is there a possibility that if stockpile funds are limited, that Defense Production Act funds may also be limited—the use of them?

Mr. FLOETE. To the extent that the stockpile did not reimburse the DPA inventory, that could ultimately happen. I mean, if it continued to happen.

Mr. WARREN. Since your $2.1 billion borrowing authority is for a liability of that amount, if you tie up your funds in inventories, don't you restrict the use of the borrowing authority funds much more in inventories, or the working capital for inventories, than you would otherwise?

Mr. FLOETE. That is true.

Senator CAPEHART. Will you yield there? That is one of the reasons that Congress has refused to appropriate money for the stockpile to reimburse these people with; you know that; don't you?

Mr. WARREN. Yes, sir. That is my point, as to where the Defense Production Act inventory stands in the event additional funds are not provided for the stockpile.

Senator CAPEHART. It was a bookkeeping transaction, I mean, to appropriate $330 million, was it not, for you to be reimbursed with. Then you need $330 million less, but the House Appropriations Committee refused to give the $330 million, if I remember correctly.

Mr. FLOETE. It was $130 million.

Mr. WARREN. Is it possible, with aluminum being "put" to the Government, and possibly other materials being "put" to the Government, that we may be limited on Defense Production Act funds if stockpile funds are limited?

Mr. FLOETE. We don't see that it is going to happen this year. We think there is ample in what was called our capital accounts and reserve accounts, to take care of any foreseeable "put" that we may get from aluminum. But you are correct; the ultimate result is that the borrowing authority is penalized just that amount.

Mr. WARREN. My point is that if you use $500 million of the borrowing authority for working capital, it restricts it to a much greater extent than if you were not using it for working capital because the same rules do not apply to working capital as apply to the fund for other purposes.

Mr. FLOETE. You are right.

Mr. WARREN. Mr. Pike, would you comment on that?

Mr. PIKE. I agree.

Mr. WARREN. The total amount of aluminum that could be "put" to the Government was around 2 billion pounds?

Mr. MEDLEY. Well, the estimated contract production for the year beginning April 1 would be about 496,000 tons or it would approach 1 billion.

Mr. WARREN. For the entire period?

Mr. MEDLEY. One year.

Mr. WARREN. The cost of that would be approximately $250 million?

Mr. MEDLEY. That is correct.

Mr. WARREN. How would that item affect your borrowing authority fund?

Mr. MEDLEY. Well, as Mr. Floete indicated, we don't anticipate that it would give us any unmanageable situations for the coming year. Eventually of course, it would catch up with us.

Mr. WARREN. What are the specific plans for disposition of materials that are in the Defense Production Act inventory if not required for the stockpile?

Mr. FLOETE. Do you mean the specific items?

Mr. WARREN. Yes. Tungsten for example. What means do we have of disposing of the inventory when the stockpile objective is completed?

Mr. GUTCHESS. If the stockpile objective, the minimum objective, has not been met, during the year in which delivery is made, it is transferred to the stockpile. If it is in excess of the minimum objectives, and below the long term, it is transferred the next year, after delivery.

Mr. WARREN. If there are no requirements in the stockpile, what are our plans for disposing of the material?

Mr. GUTCHESS. It stays in "D" inventory—and we have no present plans ourselves. Those are determined by ODM, but we have gone to them with a number of small cases to request their approval of disposal of a few items. Now, when there is an industry shortage, ODM has certified to us the sale of material in "D" which was true of copper, between 1954 and the middle of last year, and it is true of nickel at the present time, but there is no general plan at the present time for the disposal of the materials in the "D" inventory.

Mr. WARREN. What restrictions are placed on disposing of materials in the Defense Production Act inventory, such as overrunning the supply; upsetting the market?

Mr. GUTCHESS. I think the Defense Mobilization Order V (3) issued in 1954 by ODM is the authority for releasing it for disposal of materials from stockpile. I mean, from the "D" inventory and that provides, as we indicated now, that wherever there is a leeway in the stockpile, it will be held for that, and that then is as far as it goes. As far as disposing beyond that, it cannot be done until it has been certified that there will not be any effect upon the general economic situation, and will not interfere with domestic producers in their sales of similar material.

Mr. WARREN. What do the possibilities appear to be insofar as disposing of tungsten?

Mr. GUTCHESS. This is a personal opinion. I would say that the possibility is reasonably small in view of the present situation, as far as supply and demand goes. The domestic industry and foreign suppliers can more than supply the domestic requirements. I just don't see personally how we could dispose of it for some years to come, to private industry.

Mr. WARREN. To what extent are borrowing authority funds available for new programs?

Mr. MEDLEY. I don't believe I quite understand your question.

Mr. WARREN. Do you have funds available in GSA for new programs other than those that are listed?

Mr. MEDLEY. Yes, sir, as shown on exhibit No. 1 of the statement filed with the committee, there is a total available for new programs

of $241,390,000. That does not take into account any additional balances that we might make that we could pick up, you know; any balances that have been certified in other programs, so that we can safely say there is a minimum of $250 million and possibly $300.

Mr. WARREN. Do you contemplate that any titanium will be transferred to the stockpile. As I understand it, there is not a stockpile objective now; is that correct?

Mr. GUTCHESS. There is a stockpile objective but it is my understanding that none of the material in the present Defense Production Act inventory quite meets the stockpile specifications.

Mr. WARREN. What plans do you have for disposing of that material?

Mr. GUTCHESS. We have recently, this spring, offered I think it was 571,000 pounds of titanium to industry and to 13 possible industry users and we received 2 bids, both of which were below the present market price, and it was determined not to release any of that material. We hope, I think, to continue to try this occasionally, in small amounts, to see whether industry can absorb any of it.

Senator CAPEHART. Do I understand you feel you have authority to dispose of the stockpiles yourselves?

Mr. GUTCHESS. Yes. The Defense Production Act inventory.

Senator CAPEHART. You have no authority to dispose of the strategic material stockpile; you are talking about the Defense Production Act?

Mr. GUTCHESS. Yes. The Defense Production Act.

Senator CAPEHART. Does the present law give you the right to dispose of that without consultation of Congress.

Mr. GUTCHESS. We go to ODM.

Senator CAPEHART. I mean, ODM.

Mr. GUTCHESS. I don't think we have any authority.

Senator CAPEHART. There are no restrictions on you at all?

Mr. PIKE. As far as the law is concerned.

Senator CAPEHART. That is what I mean. I am not criticizing you for it. I am trying to find out.

Mr. PIKE. As far as the law is concerned, section 303 (a) of the Defense Production Act of 1950 provides authority for purchases of or commitments to purchase metals, minerals, and other materials for Government use or resale.

Senator CAPEHART. There are no restrictions on the resale as to time or price?

Mr. PIKE. No statutory restriction.

Senator CAPEHART. There should be. Much as I love you gentlemen, I am not so sure I want you to someday break the market in any given material, which you might well do. Is that right?

Mr. PIKE. Our policy——

Senator CAPEHART. I am not saying that you would. I am saying you might. You could.

Mr. PIKE. Our policies—the policies that guide us, prevent that. In fact, that is one of the practical problems we have of disposing of it.

Senator CAPEHART. In writing the law, we have not thrown any safeguards around it, have we?

Mr. PIKE. There is nothing specific in this law.

Senator CAPEHART. You can sell it at any price, even though you sell at less than cost. You can sell any quantity at any time you want to?

Mr. PIKE. Theoretically, yes.

Senator CAPEHART. I am not saying that you will. I am saying that is not your fault. That is the way the law is written. Isn't that correct? It gives you that authority?

Maybe we had better look into that, Mr. Chairman.

Mr. PIKE. That, incidentally, is authority that runs to the President.

Senator CAPEHART. I understand. I am not criticizing you or anybody. I am trying to analyze the situation.

Mr. PIKE. The President has issued restrictions. Through the President, there have been issued restrictions that, in fact, do restrict us.

Senator CAPEHART. But the Congress has not restricted you?

Mr. PIKE. The Congress has not but it has been done administratively.

Senator ROBERTSON. The Chairman regrets we cannot complete this investigation. We hope that we can meet at 2:30 p. m. next Tuesday.

Senator BRICKER. May I ask one question?

You mentioned new programs—of $241 million available for new programs. Does that mean a new program in the fields in which we are operating now or do you anticipate new fields in an entirely different field from what you have been operating, buying of new materials and new minerals, and so on?

Mr. MEDLEY. Well, I hope my answer did not convey—and I did not intend to convey—that we anticipate any programs. I was merely answering what financing is available for any programs which might develop.

Senator BRICKER. Have you any programs in anticipation?

Mr. MEDLEY. I believe that it would be more appropriate for ODM to answer that question.

Senator BRICKER. Thank you.

Senator ROBERTSON. The Chair announces tentatively we are planning to meet next Tuesday at 2:30 p. m., at which time Mr. Gordon Gray will be the chief witness, and other witnesses that they think will be needed, will be noted.

Mr. PIKE. May I correct one statement? I am sorry, I was in error. In section 303 (a) there is a restriction on the disposal authority. It provides that minerals and metals shall not be sold at less than the established selling price or the current market price whichever is lower.

Senator CAPEHART. I see. That is the only restruction on it?

Mr. PIKE. It goes on.

Senator ROBERTSON. We will adjourn.

(Thereupon, at 4:30 p. m., the joint committee adjourned.)

(The following questions were submitted to the Administrator of the General Services Administration at the conclusion of the hearing:)

BORROWING AUTHORITY FUND

1. Question. What functions does GSA perform with respect to the administration of the borrowing authority fund under the Defense Production Act?

Answer. ODM is charged with overall responsibility pertaining to administration of the borrowing authority fund. GSA enters into contracts and commits

the Government to the extent of allocations made to it by ODM and subject to the goals and general policies prescribed by ODM.

2. Question. Does GSA have any responsibility as to the certification of programs or the allocation of funds for each program?

Answer. GSA does not have any responsibility with respect to certification of programs or allocation of funds. However, as a service agency for this program, GSA works closely with ODM on the matter of determining the estimated working capital and probable ultimate net cost required to execute certified programs. GSA submits these estimates to ODM for review in connection with the certification of programs. The amount finally certified or allocated is determined by the ODM.

3. Question. Does the Bureau of the Budget participate in the allocation of borrowing authority funds?

Answer. The Budget Bureau does not participate in the allocation of the funds. The authority to allocate funds from the borrowing authority was delegated by the President to ODM, and that agency has exclusive control of all allocations.

3 (a). Question. Are the Defense Production Act contracts reviewed by the Bureau of the Budget?

Answer. The Bureau of the Budget does not review individual contracts to be financed from the Defense Production Act borrowing authority. There is, however, a general review of all programs at various stages in the budget formulation and execution process; for example, periodic reviews are made of expenditures under all contracts for the purposes of budget and apportionments.

This review is initially made by GSA, working with ODM staff, and the final results are reviewed by the Bureau of the Budget.

In addition to the foregoing, there appears in paragraph No. 4, of the general statement, a discussion of the Budget Bureau review of the borrowing authority utilization.

4. Question. How many minerals and metals programs have been expanded with borrowing authority funds?

Answer. There appears in exhibit 4, of the statement, a summary of program activity in minerals and metals under the Defense Production Act. This list indicates expansion or procurement activity for 27 materials.

5. Question. What is the current status of the $2.1 billion borrowing authority fund, and the Government's total obligation under existing contracts?

Answer. The overall status of the $2.1 billion borrowing authority fund as of December 31, 1956, appears in exhibit 1 of the general statement. With respect to the Government's total obligation under existing contracts executed by GSA as of December 31, 1956, these contracts have a gross value of $7,179,500,000 and the estimated net loss against these contracts is $754,493,000. (See pp. 13 and 14.)

6. Question. To what extent are borrowing authority funds available for new programs?

Answer. As of December 31, 1956, $241,390,000 was available for new programs. Of this amount, $27,787,000 is available to GSA, and the balance is allocated to other agencies or is being held in reserve by the Office of Defense Mobilization. The details, by agency, of the $241.4 million is shown in exhibit 1 of the general statement. (See p. 13.)

6 (a). Question. Are the available funds adequate to meet agency obligations during the coming fiscal year?

Answer. Based on present estimates of losses and working capital requirements, the currently authorized borrowing authority is sufficient to cover all requirements through fiscal year 1958. This includes working capital needed to cover reasonable estimates of aluminum "puts."

7. Question. What is the total dollar value of contracts entered into under the Defense Production Act?

Answer. The total dollar value of contracts executed by GSA under Defense Production Act as of December 31, 1956, is $7,179.5 million. Details of these contracts by commodity programs are shown in exhibit 2 of the general statement. (See p. 14.)

7 (a). Question. What is the amount of losses sustained to date under DPA contracts?

Answer. As of December 31, 1956, the total losses incurred were $163,299,888. A detail of these losses by major program is shown in exhibit 13 of the general statement. (See p. 27.)

7 (b). Question. What is the amount of future anticipated losses under existing contracts?

Answer. As of December 31, 1956, total losses under contracts executed by GSA were estimated at $754,493,000. Of this amount, $163,300,000 was actually incurred, leaving a balance of $591,193,000 in anticipated losses for the future.

8. Question. What is GSA's current policy with respect to further expansion of the titanium industry?

Answer. GSA does not, of course, determine policy with respect to the expansion of any commodity. Insofar as the present program is concerned, ODM certified an increase in annual productive capacity from 900 tons, as of June 1952, to 22,500 tons. GSA executed 5 contracts covering the necessary 21,600 short tons increase in productive capacity. Further expansion of this industry, if any, would depend upon a revision by ODM of its expansion policy.

9. Question. Has any progress been made in determining an economical process for upgrading manganese ores which the Government now has stored at its three purchase depots?

Answer. Several research projects were undertaken to develop an economical process for beneficiating manganese ores. Thus far, these efforts have not proved fruitful. The matter is still under active consideration. There appears in exhibit 10 of the general statement a listing of all manganese research projects by GSA showing cost, status, and purpose (see p. 22.)

Defense Production Act Inventory

1. Question. Would you outline the relationship between the DPA inventory to the stockpile inventory and other Government inventories (CCC and Interior)?

Answer. This question is covered in the general statement which discusses legislation dealing with raw materials and the interrelationship of this legislation. A graphic illustration appears in chart A of the general statement (see p. 12)

2. Question. Are the various Government stockpiles and inventories separated physically, or merely through bookkeeping?

Answer. The inventories are physically separated and separately accounted for until such time as action is taken to transfer materials from one inventory to another. The transfer of materials from one inventory to another does not normally involve a change of physical location.

3. Question. What is the total acquisition cost of the materials on hand in the DPA inventory?

Answer. (See answer to No. 4 below.)

4. Question. How does the market value of the materials in the DPA inventory compare with the total acquisition cost?

Answer. The total acquisition cost of minerals and metals in the DPA inventory as of December 31, 1956, was $609.5 million. The market value as of the same date was $295.4 million. The details of this inventory by commodity program are shown in exhibit 4 of the general statement. (See p. 16.)

5. Question. Is it true that better than 85 percent of the DPA inventory consists of only 4 of the 26 materials (tungsten, $321 million; titanium, $82.5 million; manganese, $66 million; and columbium-tantalum, $53.7 million)?

Answer. Yes, this is true. The details, by commodity, are shown in exhibit 12 of the general statement. (See p. 25.)

6. Question. Do all the materials in the DPA inventory meet stockpile specifications?

Answer. No; they do not. Exhibit 12 shows for each commodity inventory the portion meeting or not meeting stockpile specifications. (See p. 25.)

7. Question. What plans does GSA have for upgrading those materials which do not meet stockpile specifications?

Answer. The policy with respect to upgrading materials is set forth in the report of the President's Cabinet Committee on Minerals Policy, dated November 30, 1954. This policy calls for deferring such operations until we are in a period of low economic activity. Accordingly, there is at present no general program to upgrade materials in the DPA inventory. It should be borne in mind, however, that some of our research projects, such as in the case of manganese, are designed to develop efficient processes which would make it possible to upgrade materials at minimum cost.

8. Question. What is the present policy in connection with sales of materials from the DPA inventory to the national stockpile?

Answer. The Office of Defense Mobilization determines the policies and plans for the disposition of materials in the DPA inventory. With respect to sales to the stockpile, ODM'S policy is to sell, or hold for sale, to the stockpile those materials in the DPA inventory which meet stockpile specifications and for which stockpile objectives have not been met. When such sales are made, the borrowing

authority is reimbursed from stockpile funds, on the basis of market prices at the time of sale, with the exception of Nicaro nickel, which is transferred at cost. Generally, if the minimum stockpile objectives have not been met, sale to the stockpile is authorized for the amount expected to be delivered under DPA contracts during the fiscal year. If the long-term objectives will not be exceeded as a result of the transfer, sale to the stockpile is authorized for the amount of the DPA inventory as of the end of the previous fiscal year.

9. Question. To what extent is GSA presently restricted in disposition of surplus materials held in the DPA inventory?

Answer. GSA disposes of materials in the DPA inventory in accordance with directives and instructions from ODM. Defense Mobilization Order V–3, issued by ODM, provides that sales from the DPA inventory "will not be made, either in whole or part, without clear indication that such action will not have a seriously adverse effect upon the market prices, or create major market fears or uncertainties, and without the prior approval of the President or an official specifically designated by him."

Order V–3 further provides: "Generally, where the sale of surplus materials acquired under the Defense Production Act is undertaken and the quantity is substantial in relation to annual market consumption, such disposal will be made only after public announcement, well in advance of disposal, of (*a*) the total quantity to be sold, (*b*) the markets in which the material will be offered, (*c*) the minimum market price or prices that must prevail at the time of sale, and (*d*) the maximum amounts that will be offered for sale in each calendar quarter or other appropriate period." In any event, such disposition is subject to the limitations prescribed by section 303 (a) of the Defense Production Act of 1950.

10. Question. How much of the DPA inventory consists of materials acquired at premium costs to the Government?

Answer. The answers to questions Nos. 3 and 4 point out that the market value of the DPA inventory is less than the acquisition cost. The difference is, in general, a measure of the premiums paid; however, long-term contracts were made on the basis of the market prices then prevailing and may not bear the same relationship to market prices prevailing at the time of deliveries.

10 (a). Question. What is the policy with respect to disposing of premium-price materials?

Answer. The policies enumerated above in question No. 9, which are set forth in Defense Mobilization Order V–3, apply to all materials in the DPA inventory, whether or not they were acquired at premium prices.

11. Question. If funds are not available to purchase and transfer materials to the national stockpile from the DPA inventory, will additional working capital be required to maintain the DPA inventory?

Answer. Yes. To the extent that sales from the DPA inventory to the stockpile are deferred, allocations of additional working capital may be required to maintain the DPA inventory. This could run as high as $100 to $125 million in fiscal year 1958.

12. Question. Assuming the availability of stockpile funds, how much of the present DPA inventory could be transferred to the stockpile against the minimum and long-term objectives?

Answer. Of the $609 million in the DPA inventory as of December 31, 1956, $383.4 million represents materials which meet stockpile specifications. Of the $383.4 million, materials costing $77.4 million are within existing stockpile objectives and could be transferred to the stockpile at this time.

13. Question. What are the prospects of the Government being required to accept substantial quantities of surplus aluminum from producers during 1957 under the "put" provisions in their expansion contracts?

Answer. The extent to which producers will tender contract production depends upon business conditions. Generally, the industry forecasts that 1957 demand will be somewhat less than metal supply. For the production year ending March 31, 1957, producers tendered 200,000 short tons. An additional 13,500 short tons of April 1957 production has been tendered by 2 of the 3 producers in accordance with contract provision for monthly tenders. From present indications, it is not unreasonable to anticipate that tenders for the production year ending March 31, 1958, could approximate those for the previous production year.

14. Question. Did the same aluminum companies now "putting" their excess production to the Government also receive rapid tax amortization certificates?

Answer. Yes.

15. Question. To what extent are producers of materials receiving both guaranteed purchase contracts and tax amortization as incentives to expand production?

Answer. There is presented in exhibit 19, of the general statement a complete list of all commodity programs handled by GSA through December 31, 1956, showing in summary the various types of assistance that was given to contractors as incentives to expand production. (See p. 32.)

16. Question. How much is it costing the Government to annually maintain the D inventory?

Answer. The annual cost of maintenance and custody of DPA inventories and fixed assets is estimated at $2,500,000.

16 (a). Question. Is this nonrecoverable expense charged to the borrowing authority, and does it reduce the available funds accordingly?

Answer. These expenses are charged to the borrowing authority, thus reducing available funds.

17. Question. The stockpile report to the Congress as of December 31, 1956, reveals that there are 228 sites for the storage of stockpile materials. Would you outline the procedure which is followed in storing these materials?

Answer. The Office of Defense Mobilization issues directives and related information covering each material being stockpiled setting forth the areas in which materials are to be stored. This document also sets forth the percentage of the stockpile objective to be stored in each area. This pattern is followed in connection with stockpiling of all strategic materials irrespective of the program under which they are acquired.

Within these broad areas, storage sites are selected in accordance with Office of Defense Mobilization policies and criteria for selecting storage sites for stockpile materials, dated March 1, 1955. These instructions provide for the selection of sites at or as near as possible to the first points of consumption; avoidance of sites associated with potential target areas and a percentage limitation of quantities to be stored at any one location. The application of these basic principles provides for a wide dispersal of the total objective quantity of individual materials. For example, rubber is now stored in various quantities at 63 locations, fiber at 35 locations. This type of dispersal follows in connection with all materials.

Since a large percentage of the sites now being used were selected prior to the effective date of the present criteria, 36 percent of our storage sites are associated with potential target areas at which 43 percent of the overall tonnages of assumed destructible materials are stored. These tonnages are being reduced progressively under the rotation program.

18. Question. What is the policy for disposing of materials in excess of stockpile requirements?

Answer. The policy of ODM is to retain in the national stockpile materials in excess of stockpile requirements except when such materials are no longer classified as strategic and critical. Even in these cases disposal is spread over a reasonable period of time to minimize effects on the market. The policy for disposing of materials in the DPA inventory in excess of stockpile requirements has already been stated in answer to question No. 9.

NICKEL

1. Question. What is the present status of the nickel expansion program authorized by ODM?

Answer. The execution of the Freeport Sulphur contract, coupled with other announced expansions, had the effect of practically filling the ODM expansion goal. It should be noted, however, that the nickel supply-demand situation is constantly under review in order to test the accuracy of supply projections and the adequacy of the expansion goal.

2. Question. Is the Government-owned Nicaro Nickel expansion completed?

Answer. Yes. The expansion was completed in March 1957.

3. Question. What plans does GSA have for the Nicaro operation after the present operating contract with National Lead Co. expires on June 30, 1957

Answer. The contract has been extended to December 31, 1957. A final decision has not been reached as to whether the Nicaro operation will be continued thereafter under a Government contract, or by private industry.

NOTE.—See discussion in the general statement on p. 11.

4. Question. What is the present status of the recently executed nickel and cobalt contract with the Freeport Sulphur Co.

Answer. (*a*) A letter agreement was executed on March 8, 1957 and is being formalized with a definitive contract; (*b*) Freeport has applied to the Cuban Government for the necessary law decrees for Cuban tax benefits; and (*c*) Freeport advises that it is negotiating with bankers for financing.

5. Question. Is the Government still negotiating with the Bethlehem Steel Co. to develop its huge ore bodies in Cuba?

Answer. Discussions are continuing with Bethlehem Steel Co. as to the construction by it in Cuba of a small refinery that would be susceptible of future expansion.

DISPERSION

1. Question. What is your interpretation of the manner in which the dispersion policy applies to GSA?

Answer. The dispersal policies are outlined in DMO order I–19 together with a letter from the Director, Office of Defense Mobilization, dated January 18, 1956. They place the responsibility with the head of the agency for determining whether the nature of the activity for which a new Federal facility is to be used will permit the use of a dispersed location. When GSA constructs for another Government agency, it relies upon the determination by such agency and the certification thereof to GSA.

2. Question. Do you follow a dispersion policy in storing materials?

Answer. Yes. As stated in the answer to question 17 under Defense Production Act Inventory, target areas are avoided in selecting storage sites and the percentage of specific materials stored at any one location is limited.

3. Question. How do you apply the dispersion policy to the construction of Government buildings?

Answer. For critical target areas in which GSA has responsibility for design and construction, the agency heads are requested to determine whether the nature of the activity to be housed will permit the use of a dispersed location. GSA is then guided in its construction program by the nature of these determinations.

3 (a). Question. Are there any laws or regulations which are in conflict with the dispersion policy of the Defense Production Act?

Answer. Not to our knowledge.

3. (b) Question. As related to dispersion, what are the responsibilities of the National Capital Planning Commission?

Answer. Under DMO I–19, the National Capital Planning Commission has no authority as related to dispersion. Responsibility for determining whether or not an agency can function from a dispersed location rests with the agency head subject to guidance received from the Department of Commerce.

4. Question. How do you apply the dispersion policy in connection with the purchase of materials?

Answer. Most contracts providing for the construction of new facilities or the expansion of existing facilities were executed prior to 1956. The location of minerals and metals projects, of course, is dependent upon the location of mineral deposits, power, and consuming areas. Within such limitations the dispersal policy is being followed in locating new or expanded facilities.

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